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China

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China

Contrarian Investing: Pervasive Hatred of US-Listed China Creates Opportunity

Summary: It is almost universally accepted that the US-listed China space has been a terrible investment over the past 12 months. It seems that the only people making money in this space have been bloggers with a sharp pen, a solid background in creative writing and access to stock loan. We have reached a saturation point where nearly every new investor wants short ideas in this space; where stocks have limited floats, expensive borrows and little to no derivative trading opportunities. Short interest in increasingly illiquid names has shot up, in excess of 30%-50% of the float, while valuations have been driven down to mid-single digit earnings multiples – if you are able to believe the numbers. It also seems that nearly every media outlet, legitimate and otherwise, has found a means to demonize the space, creating an environment that, for a contrarian, the old adage of the shoe shine guy/cab driver indicator should be blinking bright red. We don't believe that we are completely out of the woods and later we will discuss some of the potential risks remaining. To be clear, we are not advocating buying a value screened basket of stocks across the sector. If the sky is indeed falling then stock selection won't matter; but assuming we are in the midst of an overcorrection, we would like to highlight companies that we believe have sound fundamental operating models, strong balance sheets, competent management, identifiable growth catalysts and compelling valuations. In a sense we think that these companies are what we view to be the most attractive ports in the storm.

Highlights

This piece is by no means an attempt to dismiss the short thesis overhanging the general space; many of these companies have earned their negative following. There are many companies in this space that should never have become public. We are also sure that there are many that continue to misrepresent their underlying businesses; and that over the next year more than a handful of these companies will go away. Many of these problem companies were created by unethical finders, promoters and management teams who have paired with bankers to feed unqualified companies to institutional investors. Many of these investors have only recently learned how little initial diligence had been conducted to support the merits these companies have claimed while on the road marketing transactions. This has created the crisis of confidence across the entire market segment that we face today. Admittedly, we have all been fooled at least once. If not, you haven't been deeply enough involved in this space. Additionally, there are limitations to the information sell-side analysts can access (and many analysts who chose to operate solely on the word or guidance of management); there are also certain business models for which no one outside of management and the auditors could ever prove beyond a reasonable doubt. We would like to believe that we have learned from our mistakes and that when we look at the universe of companies we are currently involved in we have a strong sense of our covered companies' businesses as we have done the work to support our opinions. That being said, we will have mistakes and we will be wrong at points in the future, but it will not be for lack of effort or a willingness to turn a blind eye.

This is merely an attempt to help investors to look through a universe of underfollowed, lesser known names that have been under almost constant pressure for a full year. The concept is to help identify several companies that we think people should be building or preparing to build positions in. We have circled our wagons around a smaller group of companies for which we have done considerable diligence and feel confident that these companies are accurately publicly represented. If we start with the basis that these are "real" companies, we are then able to take a fundamental approach to determining value and to helping investors make capital allocation decisions.

We want to caveat this by saying that the focus of this is bottom up, identifying individual companies that we think investors should be involved in. The timing of this is imperative in the sense that at this point we do not think we are totally out of the woods from a systematic risk standpoint. This is intended as an educational piece for those that can scale into positions in good companies if they happen to come under continued pressure as a result of their affiliation to the US-listed China space, rather than their individual fundamental merits. We are not attempting to call a bottom in this market and we do feel that the over-exuberance in the US market, noted by the daily new highs in our indices, poses significant risk to the space if we are to see a broader pullback in the US markets. We also believe that there is headline risk from a macroeconomic standpoint as China deals with inflationary issues and a looming real estate bubble through increasingly tightened credit policies and a potential revaluation of its currency. As it relates directly to the US-listed China space we are focused on more of a near-term risk and we are concerned that many companies may not be able to file their 10-K in a timely fashion. In an effort to increase transparency many companies have announced auditor upgrades, largely bringing in the Big 4 to capture some positive benefit from brand affiliation and the concept of increasing transparency. Given the public criticism that many of these companies have faced, it is our opinion that these auditors recognize a greater reputational risk for their involvement; and as a result, they will likely take a much slower and more methodical approach to the traditional full-year audit: larger sample sizes, broader channel checks, capacity/volume true ups, etc. With this in mind, there is a significant risk that we may see any number of more recognizable companies delaying their filings, which could lead to continued pressure across the entire space and the further erosion of what little investor confidence remains.

The small cap China space is pretty far out there on the Sharpe ratio, not meant for widow and orphan investing. For those few brave souls who can stand in the face of pervasive scrutiny, there are several investments that we think should create meaningful value over the next twelve months. We cannot hope to time the bottom or identify the potential catalyst to revive interest in the overall space, and we do believe there remain many troubled public entities; our effort is to highlight what we view are the better companies. These companies should survive another leg down in the space, or the general market, and they have the underlying fundamentals to create meaningful value for shareholders either in the public market or for PE holders able to purchase solid businesses at unreasonably low valuations.

Contrarian Picks: Be greedy when others are fearful

The inefficiency that exists in this space, caused largely by a general crisis of confidence towards the entire sector, has created value opportunities unlike those found in any other segment of the equity markets. Below we have highlighted 11 companies from our existing coverage universe that we feel investors should focus on over the next six weeks, if there is to be additional volatility as we get through the end of the filing period. There are certainly other names that we recommend, but given the environment we are in, we feel that these are the most attractive and conservative plays in this space. Our basis for the creation of this focus list was: quality of management, our level of comfort with the company from our ground diligence, sector exposure, quality of the existing auditor and/or near-term upgrade, market capitalization, share liquidity, strength of the balance sheet and valuation. You may notice that we have violated some of our own screening variables and there are several smaller, less liquid names included, and some with capital needs, but screens alone are not an adequate basis by which to create a basket. We have attempted to present a brief summary of the businesses and have included descriptions, valuations, catalysts, concerns and other commentary.

Lihua International (LIWA, Buy Rating, $17 Price Target, Mkt Cap ~$300MM)

Lihua designs, manufactures and sells low cost / high quality alternatives to pure copper products, including refined copper products like superfine and magnet wire, rod and anode, as well as bimetallic copper clad aluminum wire in the PRC. LIWA sells its products on a tolling (or cost plus) basis, which shields the company from commodity fluctuations. In addition, the commodity like nature of its products allows the company to sell across a number of different industries, including infrastructure, auto, white goods, electronics, etc., basically eliminating dependence on a single end market. At current prices, the stock is trading at 5.2x FY2010 and 3.7x FY2011 on a net cash adjusted P/E basis, and at 3.8x and 2.6x EV/EBITDA basis, respectively. Given these valuations and simplicity of its business, we believe that LIWA is the single best pick in the US-listed China space.

Auditor: Crowe Horwath – top 10 ranked globally; we are encouraging management to make the investment in a Big 4 auditor.

Net cash: $3 per share in net cash relative to the current price of $10.02.

Potential near-term positive catalysts include:

- We anticipate strong Q4 results to be announced in early March.
- A conclusion to the internal control implementation and review for which management contracted Deloitte to conduct.
- Awarding of the license for import of 100K MT of scrap copper in early Q2 2011.
- Auditor upgrade to a Big 4 firm soon after filing their 10-K.
- Additional sell-side coverage.
- Doubling existing copper smelting capacity to 100K MT in 2H 2011.

Yuhe International (YUII, Buy Rating, $16 Price Target, Mkt Cap ~$165MM)

Yuhe engages in the supply of day-old chickens raised for meat production or broilers in China. We believe that Yuhe is an attractive investment, viewing it as both an agricultural and consumer play that should benefit from the secular growth of rising disposable consumer income levels and the dietary shift towards increased protein consumption. As a result of significant capacity ramp up driven by acquisitions completed in 2010, we expect the company to sell over 250MM day old broilers in 2011 and over 400MM in 2012, compared to ~150MM sold in 2010. This makes YUII the largest player in the space, in terms of both the parent breeder and the day-old broiler production capacity. Given the current valuation, with shares trading at about 4x and 2.5x FY 2011 and 2012 respective earnings, excluding net cash, we view this as one of the most attractive US-listed Chinese investment opportunities.

The company is admittedly small and semi-liquid with shares trading an average of ~$500k daily. The company will bring significant additional capacity on line over the next 18 months, as the company converts the facilities purchased in previous acquisitions; revenue and earnings growth should translate in kind as the company continues to capture share in its niche.

Auditor: Child Van Wagoner & Bradshaw – this is not satisfactory to us given the current market conditions. Ernst & Young had provided a full forensic audit and cleared the company of any malfeasance after Grant Thornton had resigned in early 2010, we would like to see the company engage a Big 4 auditor and believe that an upgrade is likely after the company files its 10-K.

Net cash: $2 per share in net cash relative to the current price of $8.31.

Potential near-term positive catalysts include:

- We anticipate strong Q4 results, with over 50% Y/Y revenue and net income growth, to be announced in March.

- Auditor upgrade to a Big 4 firm soon after filing their 10-K.
- Announcements of incremental capacity coming on line following the completion of renovation of recently purchased farms throughout 2011.

Deer Consumer Products (DEER, Buy Rating, $18 Price Target, Mkt Cap ~$375MM)

Deer engages in the design, manufacture, and sale of home and kitchen electronic appliances such as blenders, juice extractors, food processors, coffee machines, etc. The company sells its products within China under the Deer brand name as well as internationally on an ODM/OEM basis to blue-chip consumer product companies such as Back to Basics, Black & Decker, Betty Crocker, Magic Bullet, Kenwood and Disney. Recent earnings reports from competitors as well as industry statistics indicate that demand across the consumer appliance segment remains strong, both internationally and in domestic China. DEER shares currently trade at 9.5x 2011 P/E and 6.3x 2012 EV/EBITDA multiples; which is not cheap compared to the rest of the space but is, in our opinion, the result of management's tendency to consistently under-promise and over-deliver. In addition, as of the end of Q3, Deer had a very strong balance sheet with $45MM in net cash and $108MM in net tangible assets and showed trailing twelve months ROE and ROA of 37% and 22%, respectively.

Auditor: Goldman Parks Kurland Mohidin – while the auditor is an affiliate of BDO, a top 10 global auditor, this is not satisfactory, in our opinion, given the current market conditions. We would strongly encourage the company to upgrade to a minimum top 10 auditor after filing its 10-K.

Though it's probably the most boring chart in the universe of China names, the stock has traded actively, in excess of $2MM/day, but within a very narrow price range for ~5 months. Given the environment we consider this a tremendous win relative to peers. The company has a history of under-promising and over-delivering on its projections.

Net cash: $1.35 per share in net cash relative to the current price of $11.01.

Potential near-term positive catalysts include:

- We anticipate very strong Q4 results, substantially above the company's guidance and current consensus estimates of $0.30.
- Update on the Gome and Sunning store roll outs.
- Update on new developments in the private-label business.
- FY 2011 guidance.
- New facility in Anhui to be completed in 2H 2011 and to add ~$250MM in revenue capacity.

Exceed Corporation (EDS, Buy Rating, $14 Price Target, Mkt Cap ~$200MM)

Exceed is a consumer products company focused on the design and manufacture of athletic sneakers and apparel. The company's sportswear is sold under the internally developed XIDELONG brand throughout Tier 2 and 3 cities in ~4,200 retail stores in China. The company employs an asset light operating model: on the production side, approximately half of all of its footwear is produced by contract manufacturers, while all of its apparel and accessories line production is outsourced; on the retail store side, EDS has developed a model analogous to a franchise in which it does not own, but does effectively control and support the retail distribution footprint. Shares currently trade at less than 2x cash and 5.4x FY2010 EPS and 4.8x FY2011 EPS and we believe that EDS has the potential to adopt a dividend policy in the near term, which should create material incremental value for investors. That said, we do expect the stock to remain depressed in the near term as a result of 10MM warrants with a $5.25 exercise price expiring in November 2011. However, warrant exercise would also bring in ~$52MM in cash to an already cash heavy balance sheet of ~$100MM as of the end of Q3.

Shares remain illiquid while warrant exercise has been minimal. While we acknowledge that continued exercise could create some pressure on the shares in the near term, the value proposition remains too significant and the balance sheet too strong to wait until the November expiration. Assuming the company was to implement a meaningful dividend; shareholders would be compensated for their patience as the company develops an equity currency that better reflects the underlying company, in our view.

Auditor: Crowe Horwath – top 10 ranked globally; encouraging management to make the investment in a Big 4 auditor.

Net cash: $2.50 per share in net cash relative to the current price of $7.90.

Potential near-term positive catalysts include:

- We anticipate strong Q4 results to be announced in March.
- Expect to hear an update on the roll out of new franchise stores.
- Potential dividend announcement.

China Gerui Advanced Materials Group (CHOP, Neutral Rating, Mkt Cap ~$260MM)

CHOP engages in the manufacture and sale of cold-rolled narrow strip steel products in China by converting commodity steel manufactured by third parties into high precision, ultra-thin steel sheets and strips. The majority of CHOP's products are used in domestic consumer applications that directly benefit from the growing purchasing power of the burgeoning middle class in China, including food and packaging, wire and cable, construction decoration, household appliances (refrigerators, washers, dryers, and other small appliances) and automobile parts. The company prices its end products based on the underlying market price for raw materials and a target profit margin of about 30%, allowing it to mitigate the effect of steel's price volatility on its bottom line. CHOP manufactures its products on a contract basis by ordering raw materials only after receiving a confirmed sales order and a down payment, as well as requiring most customers to pay the balance on delivery. As a result, CHOP keeps very low inventory and accounts receivable levels and benefits from high turnover rates and short cash conversion cycles of ~10 days. CHOP operates at close to 100% capacity and is currently in the process of doubling its existing annual cold-rolled steel capacity from 250K tons to 500K tons and to increase its chromium plating capacity by 5x, from 50K tons to 250K tons. The stock is currently trading at about 5x 2011 P/E and 3x 2011 EV/EBITDA.

CHOP has remained a Neutral rated company because of illiquidity and the near-term expiration of the $5 warrant overhang of nearly 10MM shares. As that expiration date of end of March 2011 approaches we feel that investors should revisit CHOP.

Auditor: UHY Advisors – top 20 ranked globally, encouraging management to make the investment in a Big 4 auditor.

Net cash: $0.75 per share in net cash relative to the current price of $5.81.

Potential near-term positive catalysts include:

- Resolution of warrant overhang, as ~15MM warrants with $5 exercise price expire on March 19, 2011.
- Strong Q4 results to be announced in late March, which will help to set the company apart from commodity steel players like Sutor (SUTR, Not Rated), China Precision Steel (CPSL, Not Rated), General Steel (GSI, Not Rated), etc.
- Announcement of the completion of Phase 1 of its capex plan, which should add 150K MT of cold-rolled wide strip capacity and 200K MT of chromium plating capacity by the end of Q1 2011.
- Announcement of the completion of SOX404 internal control audit by E&Y by the end of Q1 2011.
- Update on Phase 2 of its capex plan, which should add another 100K MT of cold-rolled wide strip capacity by the end of Q1 2012.
- Potential announcements of accretive acquisitions or joint ventures.

ChinaCast Education (CAST, Buy Rating, $10 Price Target, Mkt Cap ~$340MM)

ChinaCast operates post-secondary education and e-learning business in China. Through acquisitions, the company currently owns three universities. We like the university model due to its high profitability, strong cash flow, stable growth and good earnings visibility. The company has approximately $150MM in cash on its balance sheet, which we expect to be used to acquire one or two universities in the next 12-18 months. On an organic basis, the company is also introducing international programs to add incremental revenues. We believe the company has a solid management team which has well executed its business operation and growth strategies. At current prices, the stock is trading at 12x FY2010 and 11.5x FY2011 on a P/E basis, and at 5.2x and 4.3x on an EV/EBITDA basis, respectively.

Auditor: Deloitte – Big 4.

Net cash: $2.15 per share in net cash relative to the current price of $6.68.

Potential near-term positive catalysts include:

- We expect the company to announce one or two university acquisitions in the next 12 to 18 months.
- We expect the company to expand its international programs to add incremental revenues.

Shengkai Innovations (VALV, Buy Rating, $13 Price Target, Mkt Cap ~$130MM)

Shengkai is one of the few valve producers in the world that is able to produce high pressure, large caliber ceramic valves. With unique formulas and processing technology, its products have the characteristics of higher resistance to abrasion, corrosion and high temperature, and longer working life than regular metal valves. It also has superior functionality and lower costs than its competitors. Due to its superior functionality, Shengkai's products have experienced strong demand from the power generation market, and it is gaining increasing acceptance in the petrochemical, coal chemical, paper, metallurgy and mining sectors. With strong pricing power and relatively low production costs, the company enjoys high gross margins of 58%-60%, and generates net margins of 33-35%. With a fast A/R collection and high inventory turnover, it also generated robust operating cash flow. The company currently has $42MM on balance sheet, which we believe will be used for additional capacity expansion and new product research and development. The company guided for 70%+ revenue growth and 50%+ non-GAAP net income growth in FY11. We expect the growth momentum to continue into FY12 driven by increased capacity and robust demand. At current prices, the stock is trading at 6.2x FY2010 and 5.1x FY2011 on a P/E basis, and at 3.8x and 2.9x on an EV/EBITDA basis, respectively.

The company is admittedly small and shares are fairly illiquid; trading less than $100k per day. That being said we feel that its proprietary technology portfolio is of tremendous value and over time the company will continue to capture share from traditional metal valve manufacturers, positioning the company for material future growth.

Auditor: BDO – top 10 ranked globally, adequate given the size of the operating entity.

Net cash: $1.17 per share in net cash relative to the current price of $5.52.

Potential near-term positive catalysts include:

- We expect the company to increase designed production capacity from 24k units to 30.8k units by end of CY11.
- With additional cash on hand, we expect the company to develop new ceramic materials and new valve products.
- Continued penetration into petrochemical and chemical market.

Guanwei Recycling (GPRC, Buy Rating, $7 Price Target, Mkt Cap ~$60MM)

Guanwei is one of the largest manufacturers of recycled LDPE in China; the company imports and recycles LDPE plastic scrap material into granular plastic for use in the manufacture of various consumer, industrial and chemical products. GPRC is one of few companies in China certified by PRC representatives and Germany's TUV Rheinland, which allows them to import higher quality waste plastics from Europe directly, resulting in higher production yields and lower input costs. Guanwei is in the process of increasing its import quota, which if granted would allow the company to more than triple its current capacity to ~185,000 tons which should drive revenue and income growth for the foreseeable future. GPRC currently sells its products to about 300 domestic China clients operating in a wide range of industries, including shoe manufacturing, architecture and engineering products, industrial equipment and supplies, and chemical and petrochemical manufacturing. GPRC usually requires customers to pay in advance, prior to making delivery. Coupled with robust inventory management and ability to postpone making cash payments for raw material purchases by approximately three months, this allows the company to enjoy a positive carry on working capital and one of the best cash conversion cycles ever witnessed by us in a US-listed Chinese company of basically zero days. Granted this company is relatively small and illiquid, we believe that it is positioned in the right space with large growth opportunities in front of it and it currently trades at only 4.4x 2011 P/E and 2.6x 2011 EV/EBITDA multiples.

As mentioned above, GPRC is waiting on the import quota increase, at which point it will need to expand production capacity and along with it will have additional working capital needs. The company has never raised cash as a public entity. We would view any offering as an entrance point and the beginning of a necessary liquidity improvement.

Auditor: BDO – top 10 ranked globally, adequate given the size of the operating entity.

Net cash: $0.55 per share in net cash relative to the current price of $3.15.

Near-term positive catalysts include:

- We anticipate strong Q4 results, with about 60% Y/Y revenue growth and 450% EPS growth, to be announced in March.
- Announcement of a 150K MT import quota approval in late Q1/ early Q2 2011

Ossen Innovation (OSN, Buy Rating, $9 Price Target, Mkt Cap ~$65MM)

Ossen is engaged in the design, engineering, manufacturing and sale of customized prestressed concrete ("PC") materials used in the construction of railways, highways, bridges, buildings and other infrastructure projects in China and internationally. The company offers a broad array of products, including plain surface as well as coated prestressed steel strands and wires. Ossen is one of the four companies in China capable of producing zinc coated prestressed products and is the only Chinese company that is able to produce rare earth coated prestressed products, which offer superior corrosion resistance, toughness, formability and life expectancy, compared to zinc coated products. Ossen markets its products under the "Ossen" brand name both domestically and internationally, selling its products through direct sales force as well as through distributors. The company currently operates two facilities with a total capacity of 140K tons per year, 90K of which is used for the production of plain surface products and the remaining 50K for coated products. The company just recently came public on NASDAQ through an IPO and will use the proceeds to increase its coated production capacity from 50K MT to 80K MT, annually. The stock currently trades at only 4.5x 2011 P/E and 4x 2011 EV/EBITDA.

Auditor: Sherb & Co; we are encouraging management to make the investment in a top 10 auditor.

Net cash: $1.20 per share in net cash relative to the current price of $4.37.

Near-term positive catalysts include:

- Upgrading to a top 10 auditor within the next few weeks, which would audit Ossen's 2010 annual results.
- We plan to take the company on a non-deal road show in mid March 2011 which should help in increasing investor visibility.
- Strong FY2010 results, with about 20% Y/Y revenue growth and over 70% EPS growth, to be announced in April.
- Update on the capex plan which should increase coated production capacity by 60% to 80K MT by year end 2011.

Zhongpin (HOGS, Accumulate Rating, $24 Price Target, Mkt Cap ~$650MM)

Zhongpin is a meat and food processing company that specializes in pork and pork products, vegetables and fruits in China. Its distribution network in China covers 20 provinces and includes more than 3,000 retail outlets. Zhongpin also exports products to the European Union and Southeast Asia. The company's current production capacity is 703,760MT, including 563,760MT for chilled and frozen pork, 90,000MT for prepared pork products, 20,000MT for premium pork oil and 30,000MT for vegetables and fruits. HOGS is in the process of increasing its production capacity further by constructing two new plants which should add 195,000 tons of chilled and frozen pork capacity by the end of 2011, or about 36% of existing capacity, and 60,000 tons of prepared pork capacity by 2H 2012, or about 67% of existing capacity, and should cost approximately $125MM, for which the company recently filed a $250MM mixed shelf. HOGS currently trades at 9.5x FY2011 P/E and 8x FY2011 EV/EBITDA.

HOGS is not terribly cheap on a relative basis, using the US listed China universe as comparables. Also, the shelf outstanding and current capex plans which are in excess of cash flows have created a near term cap on the shares. We would be a buyer on weakness or into a capital raise as we continue to view the company as one of the top names to own in this universe of companies given its size, share liquidity, institutional sponsorship and positioning in what we view as one of the most positively levered sectors in China – food.

Auditor: BDO – top 10 ranked globally; encouraging management to make the investment in a Big 4 auditor.

Net debt: $4.70 per share in net debt relative to the current price of $18.53.

Near-term positive catalysts include:

- Update regarding facility expansion.
- 2011 guidance.
- Likely capital raise.

Fushi Copperweld (FSIN, Buy Rating, $15 Price Target, Mkt Cap ~$370MM)

Fushi develops, designs, manufactures, markets, and distributes bimetallic wire products, principally copper-clad aluminum (CCA) and copper-clad steel (CCS), under Copperweld and Fushi brand names that serve primarily telecommunication, electrical utility and transportation markets. FSIN is an industry leader and the world's largest producer of bimetallic products, owning three operating facilities located in China, U.S. and U.K with a combined annual production capacity of 52,400 metric tons of CCA and 24,500 metric tons of CCS. Fushi's bimetallic conductors can reduce the amount of copper used by as much as 90%, creating considerable cost savings as well as other benefits, including lighter weight, increased flexibility, increased tensile strength, etc. Fushi sells its products to over 500 clients in 37 countries and as copper is forecasted to average around $11,000 per ton in 2011, we believe FSIN's bimetallic products should continue to generate increasing demand worldwide. The company has recently upgraded to a Big 4 auditor and has a multinational management team with over 70 years of aggregate industry experience. The stock currently trades at 6.5x FY2011 P/E and about 3x FY2011 EV/EBITDA, while the company has about $2.50 per share in net cash and $8.40 per share in net tangible assets.

The company is in the midst of an announced MBO process initiated by the company's Chairman and CEO along with Abax Capital, to take the company private at $11.50 per share, which is a ~20% premium to current prices, a price at which view as significantly undervaluing the company, but the market differs.

Auditor: Recently upgraded to KPMG – Big 4.

Net cash: $2.50 per share in net cash relative to the current price of $9.77.

Near-term positive catalysts include:

- Passing annual audit by a Big 4 auditor by March 31, 2011.
- Potential FY2011 guidance on the year-end earnings call.
- Update on the MBO status.

China Disclosures

I, Joe Giamichael, certify that the views expressed in this report accurately reflect my personal beliefs about this company and that I have not and will not receive compensation directly or indirectly in connection with my specific recommendations or views contained in this report.

I, Dmitriy Shapiro, certify that the views expressed in this report accurately reflect my personal beliefs about this company and that I have not and will not receive compensation directly or indirectly in connection with my specific recommendations or views contained in this report.

I, Ping Luo, CFA, certify that the views expressed in this report accurately reflect my personal beliefs about this company and that I have not and will not receive compensation directly or indirectly in connection with my specific recommendations or views contained in this report.

I, Jodi Dai, certify that the views expressed in this report accurately reflect my personal beliefs about this company and that I have not and will not receive compensation directly or indirectly in connection with my specific recommendations or views contained in this report.

Global Hunter Securities, LLC received compensation for investment banking services from these companies, Ossen Innovation Co., Ltd., Shengkai Innovations, Inc. and Yuhe International, Inc. in the past 12 months.

As with all employees of GHS, a portion of our analysts' compensation is based on investment banking revenues.

Global Hunter Securities, LLC does and seeks to do business with the companies covered in this research report.

Other Companies Mentioned in This Report

- ChinaCast Education Corporation (CAST: $6.68, Buy)
- China Precision Steel, Inc. (CPSL: $1.83)
- Exceed Company (EDS: $7.90, Buy)
- Guanwei Recycling Corp. (GPRC: $3.15, Buy)
- Zhongpin, Inc. (HOGS: $18.53, Accumulate)
- Ossen Innovation Co., Ltd. (OSN: $4.37, Buy)
- Shengkai Innovations, Inc. (VALV: $5.52, Buy)
- China Gerui Advanced Materials Group Ltd. (CHOP: $5.81, Neutral)
- Deer Consumer Products (DEER: $11.01, Buy)
- Fushi Copperweld (FSIN: $9.77, Buy)
- General Steel Holdings, Inc. (GSI: 2.50)
- Lihua International, Inc. (LIWA: $10.02, Buy)
- Sutor Technology Group Limited (SUTR: $1.87)
- Yuhe International, Inc. (YUII: $8.31, Buy)

Please contact Global Hunter Securities, LLC for important disclosure information for each of the companies in this report, or see our most recent research report on each company, available here. Contact our Director of Research at (949) 274-8052 or write to Global Hunter Securities, LLC, 660 Newport Center Drive, Suite 950, Newport Beach, CA 92660

Explanation of Ratings

Buy - The stock should be purchased aggressively at current prices. The stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

Accumulate - The stock should be purchased at current prices. The stock has an attractive risk/reward and is expected to outperform peer stocks over the next 12 months.

Neutral - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

Reduce - The stock should be sold at current prices. The risk/reward has become less attractive and is expected to underperform peer stocks over the next 12 months.

Sell - The stock should be sold aggressively at current prices. The stock is expected to trade lower on an absolute basis and be a top underperformer relative to peer stocks over the next 12 months.

Ratings Distribution

	Research Coverage		Investment Banking Clients*		
Rating	Count	% of Total	Count	% of Total	% of Rating Category
Buy	71	59.2%	10	55.6%	14.1%
Accumulate	21	17.5%	1	5.6%	4.8%
Neutral	28	23.3%	7	38.9%	25.0%
Reduce	0	0.0%	0	0.0%	0.0%
Sell	0	0%	0	0.0%	0.0%
Total	120	100%	18	100%	15.0%

*Investment banking clients are companies from whom GHS or an affiliate received compensation from investment banking services provided in the last 12 months.

Note: Ratings Distribution as of December 31, 2010