WHITEPAPER

Heng Ren Partners

Chinese "squeeze outs" in American stock markets and the need to protect U.S. investors

by Peter Halesworth
Managing Partner, Heng Ren Partners LLC

Executive summary

Since 2015, an unprecedented wave of 38 Chinese companies whose stocks trade on U.S. exchanges announced buyouts of U.S. shareholders. The premiums offered are less than three-fourths of the U.S. average, with more than half below the price paid at the Initial Public Offering (IPO). This is despite these companies on average increasing their cash holdings six-fold while in U.S. markets. Many U.S. and Chinese investors are discontent. However, because of jurisdictional issues and a relative lack of shareholder rights in the offshore tax havens where these companies are domiciled, a regulatory gap exists, leaving U.S. investors little to no recourse to challenge these low offers. Eventually, these managements use ownership control to "squeeze out" U.S. shareholders at low prices, and then move on to offer their company stock at much higher prices in Chinese stock markets. This white paper makes six recommendations to regulators, lawmakers, and institutional leaders to close this regulatory gap in U.S. stock markets to help align the interests of managements and shareholders.

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Regulatory gaps need to be closed to better align the interests of Chinese managements and U.S. shareholders.

Chinese issuers of U.S. securities are taking advantage of their American shareholders. They are exploiting weaknesses in U.S. corporate governance to "squeeze out" these shareholders at low prices. In 38 Chinese management buyouts announced since the start of 2015 totaling $44.4 billion in value, the average premium offered to U.S. shareholders was less than three-quarters of the *average* paid in all U.S. buyouts. This has created shareholder discontent and disenchantment.* The lower premiums offered were not due to lack of financial wherewithal. Indeed, Chinese issuers subject to management buyout offers had increased on average their cash holdings six-fold since before listing in the U.S.

Why are companies doing this? *Because they can.* They are taking advantage of a regulatory gap. As holders of American Depositary Receipts (ADRs), or American Depositary Shares (ADSs), investors in these lack the fundamental rights enjoyed by owners of stock issued by U.S. companies. Unlike with buyouts by U.S. companies, ADR holders have little to no recourse to challenge low-ball offers. As Chinese companies represent a rising share of the growing ADR/ADS market, which hit $3.3 trillion in value traded in 2014, it is important for investors, legislators, policymakers, stock exchanges, and institutional leaders to act. We must close the regulatory gap that handicaps U.S. investors and align the interests of managements and shareholders. Enforcement action and legal reform are needed to provide investors recourse to challenge one-sided deals that enrich managements at the expense of U.S. investors.

Chinese companies make below-average offers

Since the start of 2015, Chinese companies have announced an unprecedented wave of management buyout offers – 38 by our count.** Many are "orphaned"

* "A Growing Disenchantment With Chinese Buyers?" *Institutional Shareholder Services (ISS), March 15, 2016. Available from ISS by request.*

** *Two of the deals announced during this period are strategic buyouts that bring the total number of buyouts to 40. For perspective, there were 26 buyouts announced by U.S.-listed Chinese companies between 2010 – 14 by our count.*

small-cap stocks that opt to "go private" and "delist" due to Wall Street indifference after the Initial Public Offering (IPO) and low trading volume. While buyout offers are typically good news, many managements are squeezing out U.S. investors that force sales at low prices far below fair or intrinsic value,[1] curtailing investor value, and in some cases imposing permanent capital losses. A "squeeze out" is a transaction in which a large shareholder uses an advantageous position, legal device, or management power to eliminate other owners for economic advantage.

In most cases the acquirers are insiders, and the offers require shareholders who accept the buyout premium to give up on possibly much stronger intrinsic value, according to leading global corporate governance adviser Institutional Shareholder Services (ISS).

The buyout offer premiums from these 38 Chinese companies to U.S. shareholders have averaged 20.6% versus the 28.4% average control premium paid to shareholders in U.S. mergers and acquisitions (M&A) transactions for buyers to gain full control of a company.[2] Ten buyers offered shareholders premiums at or below 10%. Only five of the 38 buyout offers were at a premium more than the U.S. average.

Even more disturbing: Many of these companies seek to "squeeze out" investors below their IPO prices. After 32 of these companies who sold IPOs collected a combined $6.3 billion in IPO funds[3] ostensibly for the *long term* from U.S. investors, 19 of these 32 companies are now seeking to go private at prices below their U.S. IPO price. For these, their buyout price on average is 54% below their IPO price.

Companies exit much wealthier at U.S. investor expense

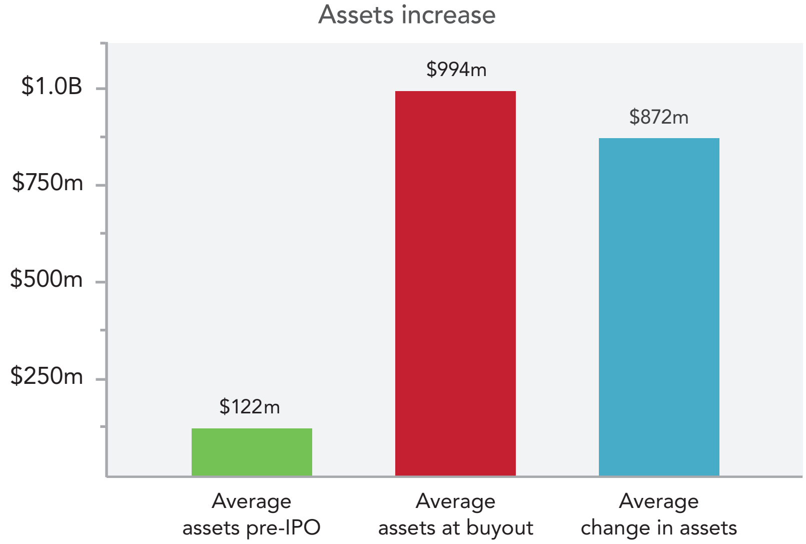
These lowball offers aren't due to a lack of cash. Many of these company owners not only give themselves a bargain when taking full control, but the companies depart the U.S. for China much stronger financially after tapping U.S. markets. On average, Chinese companies pursuing buyouts arrived in U.S. stock markets with $46 million in cash and equivalents on their balance sheets pre-IPO. By the time of their buyout announcements, the average cash balance rose to $280 million – more than six times what they had pre-IPO *(see Fig. 1)*. Total assets tell a similar story. Average total assets rose from $122 million pre-IPO to $994 million at the buyout announcement – increasing eight times.

1 Intrinsic value is the value of the company's future cash flow, asset appreciation, and earnings growth.

2 The control premium average comes from a study by Business Valuation Resources (BVR) of the U.S. This authoritative industry study showed the average control premium paid – based on 3,659 transactions closed between 2000-2010 in the U.S. – was 28.4%.

3 The total of $6.3 billion in IPO funds raised in the U.S. is based on post-greenshoe amounts. A greenshoe option lets underwriters sell more shares than originally planned. Six of the 38 Chinese management buyouts listed via non-IPO offerings.

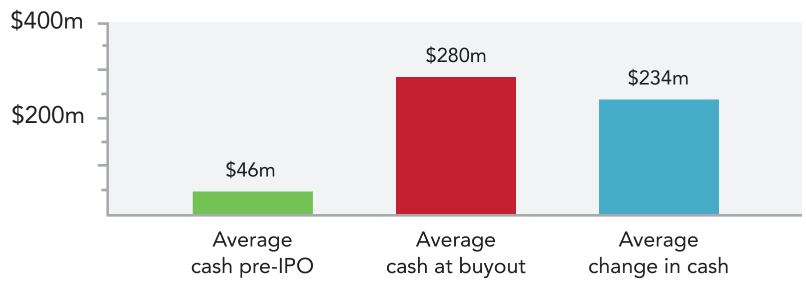
Fig. 1A – Chinese management buyouts leave U.S. much wealthier



Source: U.S. SEC filings

These lowball offers aren't due to a lack of cash.

Fig. 1B – Cash increase

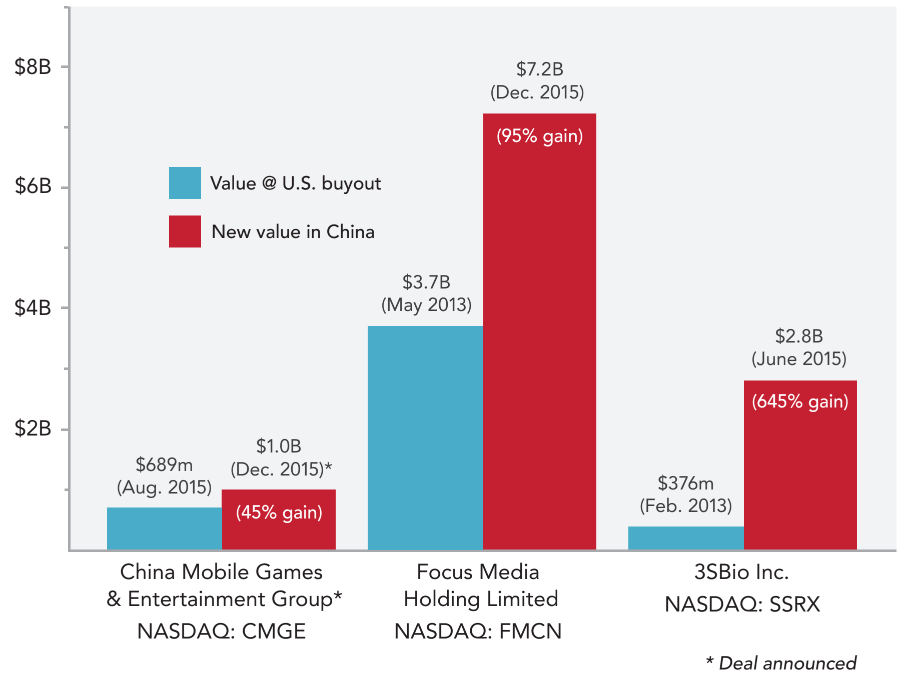


Source: U.S. SEC filings

Company managements realize their companies are worth far more than the buyout offers they make. Many of them, after successfully buying out U.S. shareholders and delisting their stock from U.S. exchanges, seek a new offering in Chinese markets. So far we have witnessed spectacular windfalls. Their offerings in China have reaped up to seven times the amount U.S. shareholders were paid, as illustrated by the examples of China Mobile Games and Entertainment Group Limited, 3SBio Inc., and Focus Media Holding Limited *(see Fig. 2)*. This is poor treatment of U.S. shareholders who supported these companies when many didn't qualify to sell IPOs in their home markets. It also highlights that the buyout prices offered to U.S. investors are far too low.

These windfalls highlight buyout prices offered to U.S. investors are far too low.

Fig. 2 – Buyouts reap huge windfalls in China



Source: *Bloomberg*

It seems as if at every turn the managements proposing buyouts looked to enrich only themselves. With their piles of cash they could ease the abrupt curtailment of value or permanent capital loss for shareholders by sweetening the buyout offer, or paying a special dividend. This is not what U.S. investors signed up for by investing in public companies trading on the New York Stock Exchange (NYSE) and NASDAQ, where public companies become trusted stewards of investor money. Instead, U.S. investors find themselves in an adversarial zero-sum game with managements of foreign companies who perversely enjoy immunity to many U.S. exchange rules and securities laws – all the while raising funds from Americans and trading in U.S. financial markets. This gaping loophole needs to be closed.

Examples of buyouts below intrinsic value and zero-sum games

Examples of these buyouts illustrate how investors are not compensated fairly. Buyouts are being made at bids that value companies below intrinsic value, or take companies private just as they are poised to benefit from positive developments. Managements have also flattered the amount of the premium they are offering, or made investors a buyout offer less than one-third of the recent IPO price.

Many companies enjoy "diplomatic immunity" from stock exchange rules and U.S. securities laws – all the while trading in American stock markets and raising funds from U.S. investors.

In many of the buyouts, managements are paying below intrinsic value. For example, consider **China Cord Blood Corporation (NYSE: CO),** a leader in umbilical cord storage in China.

The parent company made a bid of $6.40 per share for the company, well below the firm's estimated value of $15 to $20 per share, according to research published by shareholders. Needless to say this sparked a shareholder outcry.[4] A competing bidder from China made a higher offer. The parent company has reportedly agreed to a price of an estimated $13.50 per share from the competing bidder. However, all other shareholders in the U.S. would receive only the original $6.40 – a 53% discount for the same class of shares.

Another example of a bid below intrinsic value is **Jiayuan.com International Ltd. (NASDAQ: DATE),** the Match.com of China and leader in online dating with over 150 million registered users. The co-chairman unexpectedly sold her 19.6% stake near a 52-week low at a below-average 15.7% premium to the market price to a Hong Kong entity called "Vast Profit." Three days later, Vast Profit bid to buy out shareholders at the same low price. In the process, multiple bids also were received for Jiayuan, but without timely public disclosure of the bids higher than the insider bid, which was 54% below intrinsic value.

A more complex example of paying below intrinsic value, and curtailing future shareholder value, is shown by **Renren Inc. (NYSE: RENN).** Touted during its 2011 IPO as "the Facebook of China," its social networking site has since faded in popularity. However, this contrasts with the value of one of the investments it has made since Renren began to invest venture capital. Its investments include **Social Finance Inc. (SoFi),** a U.S. leader in peer-to-peer online marketplace lending, estimated to be the #2 online lender in the U.S., based on loan originations. SoFi's current value is estimated at around $4.0 billion, with some analysts expecting its value to rise as high as $6.0 billion by 2017. Expectations of an IPO of SoFi emerged in the media. Renren Chairman Joseph Chen moved to buy out shareholders. Renren owns an estimated 24.8% of the shares of SoFi,[5] which translates into an approximate current value of $1.0 billion – roughly equal to the management's buyout bid for Renren. In a buyout, Chairman Chen and his partners would acquire in Renren

4 Letters from shareholders appear at http://www.prnewswire.com/news-releases/september-9-2015-open-letter-to-the-board-of-china-cord-blood-corp-from-jayhawk-capital-300140135.html and http://www.prnewswire.com/news-releases/fm-capital-partners-delivers-letter-to-the-special-committee-of-the-board-of-directors-of-china-cord-blood-corporation-523075331.html. Also see article http://www.prnewswire.com/news-releases/golden-meditech-enters-into-agreements-with-nanjing-xinjiekou-to-sell-china-cord-blood-corporation-300200915.html and http://www.reuters.com/article/us-china-us-buyouts-idUSKCN0T416920151115

5 Renren's 24.8% stake in SoFi was reported in an SEC 20-F filing, April 16, 2015.

a lot more than the SoFi stake. They presumably would gain full control of Renren's social networking business, 16 venture capital investments in addition to SoFi, hedge fund investments, $259 million in cash, and commercial real estate – all for free.[6]

In other cases, buyouts have occurred just as company shares were poised to benefit from material positive developments.

Can we blame a culture gap between China and the U.S.?

It is noteworthy that when Alibaba.com bought out minority shareholders to delist from the Hong Kong Stock Exchange in 2012 (before Alibaba Group Holding's historic 2014 IPO on the NYSE), the buyout price of HK$13.50 equaled the IPO price. Chairman Jack Ma paid the IPO price to try to make investors whole and preserve goodwill with market participants. This is a very relevant principle in Chinese business that needs to be considered in the U.S., too, by these Chinese companies, especially since they have a large amount of cash. The notion of a Sino-U.S. gap in business culture can be dismissed.

Sinovac Biotech Ltd. (NASDAQ: SVA), a private sector leader in vaccine production, the company announced on Thursday, January 28, 2016, that it had finally received Chinese government approval to produce a transformational vaccine that could ultimately triple revenues. By Monday the company issued a press release announcing its Chairman and CEO, Weidong Yin, and his partners wanted to take full control from shareholders.[7]

China Nepstar Chain Drugstore Ltd. (NYSE: NPD), a nationwide drug store retailer, was similarly positioned for stock appreciation. After Heng Ren Investments pushed for operational improvements to unlock value, China Nepstar's stock rose more than 115%. In an earnings call, a Nepstar spokesman said the "result-driven approach will reward our shareholders in a very positive way in the coming quarters." Instead, the reverse happened for U.S. shareholders. Six weeks after this promise, Nepstar Chairman Simin Zhang moved to buy out shareholders at $2.60 per share, a price 21% below the stock's recent high and an 84% discount to the 2007 IPO price of $16.20.[8]

In the case of **E-Commerce China Dangdang Inc. (NYSE: DANG)**, management claimed that it was bidding at a higher premium. The firm is a leading online book and media seller with significant market share in China that sold an IPO on the NYSE in 2010 at $16.00 per share. In sympathy with the 2015 summer collapse of China's domestic stock markets, Dangdang's stock crashed 46% from early June to July. On July 9, China's A-share market jumped about 8% on expectations of government support. Before U.S. trading started the same day, Dangdang's executive chairwoman, and its CEO, announced a buyout offer of $7.81 per share, stating it was a 20% premium. However, in pre-market trading Dangdang's stock already rose by about 10% and opened trading 11.8% higher. The management's hurried bid announcement flattered the stated 20% premium. It is noteworthy that in 2014

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6 See http://www.cnbc.com/2015/08/06/how-this-chinese-company-is-infuriating-investors.html

7 For a related news article, see http://www.benzinga.com/analyst-ratings/analyst-color/16/02/6193949/why-sinovacs-super-bowl-moment-is-lost-on-u-s-shareholde

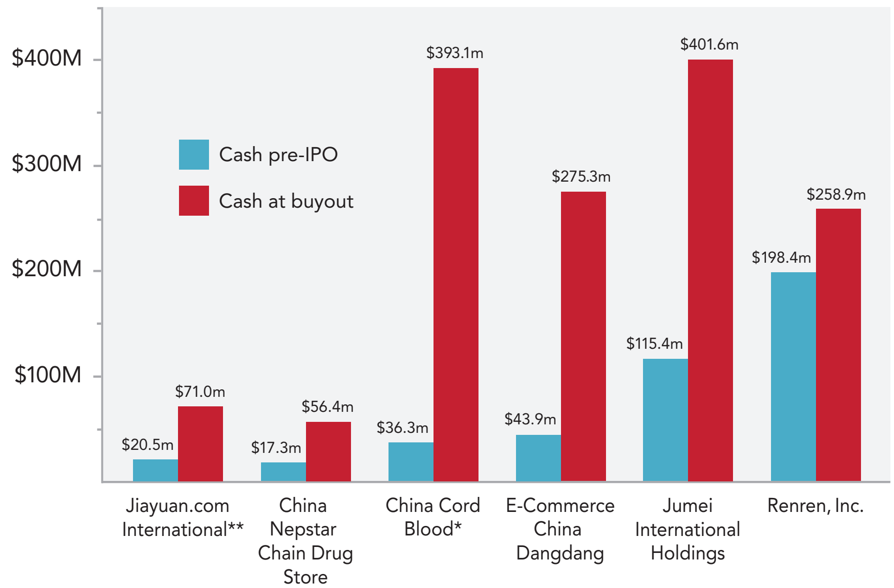
8 The Nepstar management bid was raised by two cents to $2.62. For a *Barron's* article, see http://blogs.barrons.com/asiastocks/2015/03/02/nepstar-activist-investor-makes-urgent-appeal-for-change/

Dangdang's CEO declared in Chinese media Dangdang's stock was "extremely undervalued" while trading at $14.92 – a 91% premium to the management's bid less than a year later.[9]

Jumei International Holding Ltd. (NYSE: JMEI), a leading online cosmetics retailer, illustrates how some Chinese companies are buying out shareholders at prices far below their IPO prices soon after raising significant amounts of cash in the U.S. The IPO for Jumei sold at $22.00 per share on May 16, 2014, raising $280 million with its NYSE listing. Just 20 months later, the Chairman and CEO, Leo Ou Chen, and partners offered to buy out shareholders at $7.00 per share – less than one-third of its IPO price. Meanwhile, the $932 million* company reported $400 million in cash on its balance sheet – an increase of 261%.[10]

The additional reputational risk from these events burden the remaining and future issuers from China.

Fig. 3A – Raising U.S. cash, and growing the cash pile



** N.A. – Non-IPO offering. Cash at time of most recent transaction.*

*** N.A. – Original management bid of $5.37 revised to $7.20, then beaten by competing bid of $7.56 – still 35.6% below Heng Ren's fair value estimate.*

Source: *Bloomberg and U.S. SEC filings*

* *All current stock price data as of March 24, 2016.*

9 See http://www.dangdang-cheat.com/english.html

10 See http://www.chinadailyasia.com/business/2016-03/01/content_15392404.html

Fig. 3B – Squeezing out investors at low prices below IPO

Name	Ticker	Exchange	Cash pre-IPO ($ m)	Cash at Buyout ($ m)	Buyout Below IPO? (% Below IPO)	Bid Premium Below U.S. Avg? (% Prem.)	IPO Year
Jiayuan.com International**	DATE	Nasdaq	20.5	71.0	Yes, -35%	No, 55%	2011
China Nepstar Chain Drug Store	NPD	NYSE	17.3	56.4	Yes, -84%	Yes, 14%	2007
China Cord Blood*	CO	NYSE	36.3	393.1	N.A.	Yes, -11%	2009
E-Commerce China Dangdang	DANG	NYSE	43.9	275.3	Yes, -51%	Yes, 20%	2010
Jumei International Holdings	JMEI	NYSE	115.4	401.6	Yes, -68%	Yes, 20%	2014
Renren Inc.	RENN	NYSE	198.4	258.9	Yes, -70%	Yes, 2.2%	2011

** N.A. – Non-IPO offering. Cash at time of most recent transaction.*

*** Original management bid of $5.37 revised to $7.20, then beaten by competing bid of $7.56 – still 35.6% below Heng Ren's fair value estimate.*

Sources: Bloomberg and U.S. SEC filings

Regulatory gap enables destruction of shareholder value

No U.S. regulator, institution, or elected representative has announced a review of any of these transactions despite the obvious investor discontent that has been created. No one has acted because of the rules and regulations associated with Foreign Private Issuers ("FPIs," or foreign issuers) and with ADRs (or ADSs). This inaction erodes the trust necessary for investment from the U.S. into China for the foreseeable future. These events also tarnish Chinese investors seeking investment partners in the U.S.

U.S. shareholders have no recourse because the Chinese companies are treated as FPIs under the Securities and Exchange Act of 1934 and are subject to their home country's rules. As a result, the companies are exempt from the same corporate governance that applies to domestic companies that trade on U.S. exchanges. For example, shareholders aren't entitled to seek independent appraisals in U.S. courts, a practice that reins in management-buyout abuses by U.S.-domiciled managements, because this practice is only just emerging in the Chinese companies' "home countries" of the Cayman Islands or British Virgin Islands, where these firms are typically domiciled. On a related note, while China has enacted laws to protect shareholders from controlling shareholders taking advantage of their position, there has been little known enforcement.

U.S. stock exchanges are aware U.S. investors and institutions have entered a "legal no-man's land" with these Chinese stocks. Yet exchanges continue to recruit them for IPOs to raise funds in America, and attract U.S. and global investors to invest in these stocks. An excerpt of a e-mail from an official outlines the regulatory gap due to these companies' "diplomatic immunity" from federal laws governing management buyouts of minority shareholders:

No U.S. regulator or institution has moved to close the gaps. This allows mistrust to breed between the U.S. and China.

> "Anyone who believes that they are aware of information that may constitute an actual violation of an (exchange) rule should feel free to contact (exchange). That being said, please understand that the (exchange) does not have any rules governing going private transactions. *Such offers are subject to the federal securities laws and the laws of the issuer's jurisdiction of incorporation.* The exchange has no jurisdiction over the offeror." (Italics added.)

U.S. institutions plead their hands are tied due to a lack of jurisdiction, which resides offshore. Because these securities trade in the form of an ADR or ADS, shareholder rights are limited even under Cayman Islands law, where no holder is automatically entitled to the rights of shareholders generally granted. This is because Cayman Island courts, to our knowledge, have not yet deemed American depositary holders of shares representing ordinary shares as actual, or legal, shareholders of such underlying ordinary shares, according to recent legal opinions.

An ADS holder's rights are limited to the rights described in the "Form of Deposit Agreement" between foreign companies and the depositary banks who act as their agents. Unfortunately, unlike Cayman Island law, these agreements do not provide any mechanism for ADS owners to hold management accountable for any self-interested, coercive, or value-destructive behavior in a transaction. This removes litigation by ADS holders against these companies as a strong option to protect their investment.

A growing drought of U.S. shareholder rights

Considering the size of the ADR market, this relative lack of shareholder rights should be a greater concern to U.S. officials. The ADR market is significant in the U.S., with a total of $3.3 trillion in value traded in 2014. On a standalone basis, at $3.3 trillion in stock value traded, the ADR market in the U.S. would have been the *fourth-most actively-traded in the world*, according to data from The World Bank *(see Fig. 4)*.

Why wait for a shareholder catastrophe to occur before closing these gaps?

Fig. 4 – Total stock value traded by country (2014)*

Global Rank	Country	Total (U.S. $ billion)
1	United States	41,268
2	China	11,959
3	Japan	4,845
4	ADRs in U.S. **	3,300
5	Hong Kong	1,521
6	Canada	1,349
7	Germany	1,347
8	South Korea	1,294
9	U.K.	1,243
10	France	1,173
11	Spain	1,010
12	Chinese ADRs in U.S. **	892
13	Switzerland	738
14	Australia	736
15	India	730

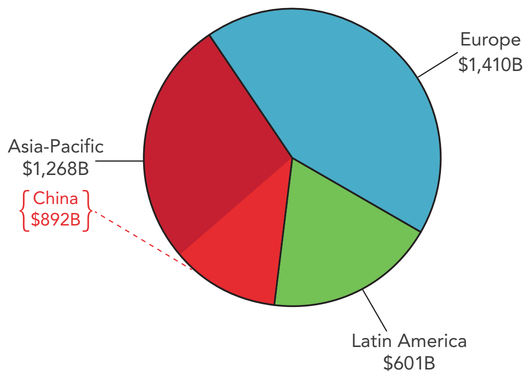
* *Source: The World Bank Group*
The value of shares traded is the total number of shares traded, both domestic and foreign, multiplied by their respective matching prices. Figures are single counted (only one side of the trade is considered). Value of trade of all stock exchanges in the respective country.

** *Source: BNY Mellon Depositary Receipt Market Review 2014*

Chinese ADRs and ADSs represented about 27% of the total value of ADRs traded in 2014, or $892 billion of the $3.3 trillion *(see Fig. 5)*.* This provides a measure of the presence of Chinese ADRs in U.S. stock markets, and how pervasive the lack of shareholder rights is, especially in the event of a "squeeze out" at low prices.

The Chinese ADR market in the U.S. alone would be the twelfth most active in the world.

Fig. 5 – Total value traded of ADRs, by region



Source: *BNY Mellon Depository Receipt Market Review 2014*

Currently the "squeeze outs" are occurring in smaller stocks. But the regulatory gaps also invite far larger companies to follow. Consider the total value of the 38 announced buyouts is $44.4 billion, while the two largest Chinese ADRs – popular internet stocks Alibaba Group (NYSE: BABA) and Baidu, Inc. (NASDAQ: BIDU), are valued at $189 billion and $65 billion, respectively. Why would regulators wait for a shareholder catastrophe to occur before closing these gaps?

In terms of value traded, by our measurement, the Chinese ADR market in the U.S. *alone* would be the *twelfth most active in the world,* with its annual value traded larger than the stock markets of Switzerland, Australia, India, and Brazil. And investors in this large and growing universe of stocks on U.S. stock exchanges have little protection if companies seek to squeeze them out at a low price.

Reasons for optimism

The investment results from Chinese ADRs have not been unanimously disappointing. Some Chinese ADRs that are seeking to buy out shareholders have performed well, and the path from China to U.S. stock markets remains well trodden.

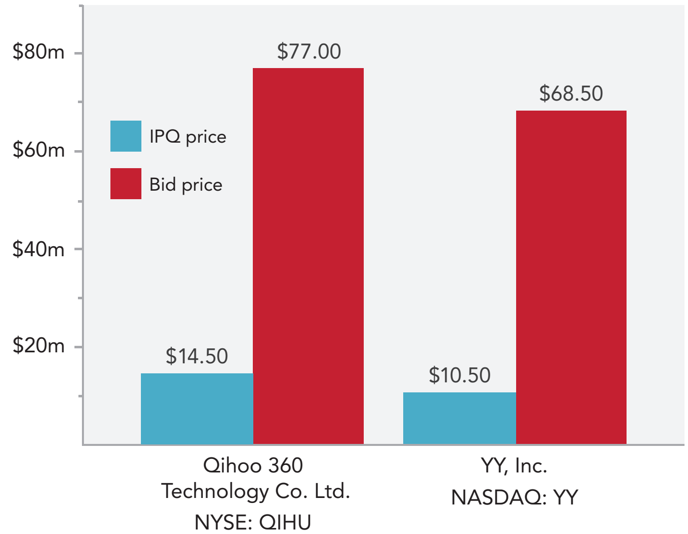
It is no coincidence that the announcements of buyout offers from the managements of some Chinese companies *(see Fig. 6)* have not created controversy. Their

* *All current stock price data as of March 24, 2016.*

management bids are perceived as fair value because Chinese managements that generated shareholder value have earned investor trust. It is refreshing to see admirable success and stock market rewards for managements who don't treat investors as adversaries in a zero-sum game. There is reason to be optimistic.

Generating value for shareholders earns investor trust.

Fig. 6 – Buyout candidates: the stars



Source: *Bloomberg*

However, unfortunately the regulatory gap in U.S. stock markets and lack of recourse for ADR holders is now well known around the world. For many it is too tempting to resist. For them, U.S. stock markets have become corporate governance havens for foreign companies that take coercive actions after raising investor funds from U.S. markets while trading under the trusted logos of the NYSE and NASDAQ.

Good corporate governance also needs self-regulation. In September China will host for the first time the important G20 Summit in the eastern city of Hangzhou, from where Alibaba Group (NYSE: BABA) hails. High on the G20 agenda is improved global governance, including in economic global governance to enhance fairness, justice, inclusiveness, and order. Now is an opportune time for China, as a successful G20 host and partner, to ensure success at the historic summit by persuading its companies to contribute to improvement in governance, and discourage actions that are detrimental to this effort – even if there are regulatory gaps abroad to exploit. This also will improve the chances of success for the "Stock Connect" program between the London and Shanghai stock exchanges, proposed by the U.K. Chancellor of the Exchequer, Mr. George Osborne. Measures to improve "China Inc.'s" reputation with global investors could generate some of the international soft power that China craves. Improved and fair buyout bids would go a long way.

Act now so the U.S. is not a corporate governance haven

Under these circumstances, the NYSE, NASDAQ, the Securities and Exchange Commission (SEC), the U.S. Department of the Treasury, elected officials and representatives, and other U.S. institutions are the last line of defense for investors. No action to prevent the abuse of domestic markets means permanent capital loss will be a pervasive threat to Chinese ADR holders. Our institutions will have failed their constituents, and the resulting loss of confidence and trust in U.S. regulators, capital markets, and Chinese investments will likely have many adverse consequences.

Current issuers, and those in the future, also are penalized by a permanent "China discount" embedded in the value of their stocks due to the unchecked corporate governance risk created by the regulatory gaps, and the general guilt by association with those companies who abuse it.

Corporate governance should be high on the U.S.-China policy agenda.

Chinese investors also are negatively surprised and disappointed by the lack of institutional motivation in the U.S. to address this abuse of markets and investors. International investors across the world expect higher standards of protection to preserve trust in the renowned NYSE and NASDAQ stock markets. It is of paramount importance for relevant institutions to avoid the adverse consequences of loss of trust and confidence by performing its public interest regulatory duties related to these "squeeze out" transactions.

Ultimately, we would like to see holders of ADRs or ADSs gain the ability to petition courts in the case of low-bid "squeeze outs" by foreign issuers. This would allow holders to make their case, and likely result in higher offers much closer to fair value. Most of all, it would deter foreign issuers from trying to game the system at the expense of U.S. investors. This change will take careful negotiation with multiple entities both inside and outside the U.S. and will likely be an extensive process. Hence, we have interim recommendations that would hopefully protect investors.

Our six recommendations

1. **Monitor foreign issuer buyouts.** The U.S. Securities and Exchange Commission (SEC), after the announcement of a buyout proposal, should monitor a foreign issuer's dealings. If there are concerns about the buyers group's process and tactics, then the SEC can alert the stock exchanges that control the Company's listing status to invoke administrative penalties, including suspension of trading of the stock and a halt to the delisting process.

To alert relevant institutions, legislators, and policymakers about the need to address low-bid "squeeze outs," please use the "Contact List for Action." Take action now to help U.S. investors and responsible Chinese managements benefit.

Contact list for action

The U.S. House of Representatives Financial Services Committee
The Hon. Representative
Jeb Hensarling, Chairman
https://financialservices.house.gov/contact/contactform.htm

The U.S. Senate Committee on Banking, Housing, and Urban Affairs
The Hon. Senator Richard Shelby, Chairman
https://www.shelby.senate.gov/public/index.cfm/emailsenatorshelby

The U.S Securities and Exchange Commission (SEC) – Complaints
https://www.sec.gov/complaint/tipscomplaint.shtml

The New York Stock Exchange (NYSE) – Issuer Enforcement
John.carey@theice.com

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The U.S.-China Economic and Security Review Commission
contact@uscc.gov
Tel. (202) 624-1407
444 North Capital Street
NW Suite 602
Washington, D.C. 20001

Institutional Shareholder Services (ISS)
http://www.issgovernance.com/contact/contact-us/

Glass Lewis global governance services
info@glasslewis.com

2. **Solicit investor feedback.** In the event of a buyout offer, the SEC should actively solicit the five largest non-management shareholders for an opinion on the fairness of the buyout offer. The shareholders should not be required to opine, but rather be afforded the opportunity to express any doubts. The SEC can respond to concerns by creating an independent valuation committee to evaluate the proposal.
3. **Institute independent evaluations.** Special committees formed by foreign issuers to evaluate buyout offers lack independence and influence. Instead, they should be composed solely of valuation experts appointed by the exchanges and paid for by the companies for a truly independent and technical evaluation of a buyout offer – especially when a buyer's group includes management. This is because shareholders of foreign issuers lack the right to petition a U.S. court for appraisal rights.
4. **End "diplomatic immunity."** Accord investors in ADRs or ADSs the same rights as shareholders in the eyes of the U.S. courts, as well as in other relevant jurisdictions, including the Cayman Islands, British Virgin Islands, Bermuda, the Bahamas and Antigua. The goal should be harmonization of laws and regulations, in particular those that aim to protect and preserve the rights of shareholders to effectively petition courts in cases of financial abuse. The U.S. stock market version of "diplomatic immunity" for foreign issuers should end.
5. **Apply health warnings to FPIs.** If the above remedies fail to be implemented, all the material related to a foreign issuer's IPO, secondary research by brokers, and any public information about the stock should include an explicit warning label similar to the U.S. Surgeon General's warning on smoking. Due to the regulatory gaps, investing in these stocks allows for much less shareholder protections and rights, which could result in financial harm. This status should be identifiable by the stock ticker with a specific numeral, letter, or special character.
6. **Raise the bar on buyout votes.** A majority of minority shareholder (non-management or non-buyers group) votes should be required to approve a buyout transaction by a foreign issuer's management or partners. The usual straight majority vote enables a controlling shareholder to push through a transaction that may be opposed by most minority shareholders. Raising this bar would offset the current lack of rights available to U.S. holders of ADRs/ADSs. The vote would occur at an extraordinary meeting of the foreign issuer's shareholders either in person or by proxy.

In conclusion, it seems that U.S. financial regulators, institutions and media haven't yet given serious attention to Chinese squeeze-outs because they have yet to provide an epic, Hindenburg-style disaster. Admittedly, they have so far involved smaller companies, but that could change. The regulatory gaps are wide, and the weight of some larger companies, if they move through these gaps, will stress and crack investor confidence in American stock markets.

Appendix: Related shareholder letters and media

China Cord Blood (NYSE: CO)

http://www.prnewswire.com/news-releases/september-9-2015-open-letter-to-the-board-of-china-cord-blood-corp-from-jayhawk-capital-300140135.html

http://www.prnewswire.com/news-releases/fm-capital-partners-delivers-letter-to-the-special-committee-of-the-board-of-directors-of-china-cord-blood-corporation-523075331.html

http://www.reuters.com/article/us-china-us-buyouts-idUSKCN0T416920151115

China Nepstar Chain Drug Store (NYSE: NPD)

http://blogs.barrons.com/asiastocks/2015/03/02/nepstar-activist-investor-makes-urgent-appeal-for-change/

http://www.hengreninvestment.com/images/documents/NPD%20Letter%20to%20Special%20Committee%20September%202015%20-%20English.pdf

Dangdang (NYSE: DANG)

http://www.dangdang-cheat.com/english.html

Jiayuan.com (NASDAQ: DATE)

http://www.hengreninvestment.com/images/documents/DATE%20Letter%20Apr.8_English.pdf

http://www.bloomberg.com/news/articles/2015-06-22/china-buyouts-exceeding-23-billion-leave-investors-unfulfilled

Jumei International (NYSE: JMEI)

http://www.chinadailyasia.com/business/2016-03/01/content_15392404.html

Renren (NYSE: RENN)

http://www.cnbc.com/2015/08/06/how-this-chinese-company-is-infuriating-investors.html

http://www.prnewswire.com/news-releases/open-letter-to-the-board-of-renren-inc-from-private-investors-300118414.html

http://www.prnewswire.com/news-releases/open-letter-to-renren-special-committee-board-of-directors-and-all-renren-shareholders-from-private-investors-300149119.html

Sinovac Biotech (NASDAQ: SVA)

http://www.benzinga.com/analyst-ratings/analyst-color/16/02/6193949/why-sinovacs-super-bowl-moment-is-lost-on-u-s-shareholde

Heng Ren Partners

Heng Ren Partners LLC (pronounced "hung'renn"), is the manager of Heng Ren Investments. Heng Ren Investments, based in Boston, Massachusetts, seeks to engage companies by sharing our research and analysis to assist them. Heng Ren's ultimate objective is to help company managements improve their reputation with investors by identifying very fixable problems and offering solutions. We share this in a transparent fashion in the public forum so shareholders and investors can evaluate the problems and the solutions, and monitor progress.

http://hengreninvestment.com/images/documents/2016_IFA_Awards_Announcement-Heng_Ren_Investments.pdf