



Investing in Chinese ADRs

1. Introduction

American Depositary Receipts, or ADRs, are one of the most important items in an international investor's tool kit. They give the opportunity to invest on distant markets without meeting the usual hassles. China and Hong Kong has been one of international investors' favorite markets since year 2001. The common process of investing is to open a brokerage account, wire some money over there, convert them into yuans and after that you can start trading.

Chinese ADRs are designed to eliminate these inconveniences. An ADR is a security that represents ownership of shares of a foreign company. When you buy an ADR, you technically don't own the foreign stock directly. Instead, you own a piece of paper that entitles you to one or more shares of a foreign stock being held on your behalf at a depository bank.

Advantages of Chinese ADRs:

- Chinese ADRs can be bought and sold just like shares of IBM or Coca-Cola.
- You don't need a foreign brokerage account or a new broker; you can use the same broker that you normally deal with.
- Prices for Chinese ADRs are quoted in U.S. dollars, and dividends are paid in dollars.
- Chinese ADRs trade during U.S. market hours and are subject to similar clearing and settlement procedures as American stocks.

Disadvantages of Chinese ADRs:

- Limited selection: Not all Chinese companies are available as ADRs. For example, **China Mobile** has an ADR, but **Hang Seng Bank** does not.
- Liquidity: Plenty of Chinese companies have ADRs, but some may be very thinly traded.
- Exchange rate risk: While Chinese ADRs are priced in dollars, for sake of convenience, the investment is still exposed to fluctuations in the value of the Yuan.

2. List of Chinese ADRs:

Company	ADR Ticker	Industry	Market
3SBIO	SSRX	Pharma. & Biotech.	NASDAQ
51job	JOBS	Support Services	NASDAQ
Acorn	ATV	General Retailers	NYSE
Actions Semiconductor	ACTS	Tech.Hardware&Equip.	NASDAQ
Agria Corporation	GRO	Food Producers	NYSE



G L O B A L M A R K E T S

Airmedia	AMCN	Media	NASDAQ
Aluminum Corporation of China	ACH	Indust.Metals&Mining	NYSE
ATA Inc	ATAI	General Retailers	NASDAQ
Baidu	BIDU	Software&ComputerSvc	NASDAQ
China Digital TV Holding	STV	Electron.&ElectricEq	NYSE
China Distance Education	DL	Support Services	NYSE
China Eastern Airlines	CEA	Travel & Leisure	NYSE
China Finance Online	JRJC	Software&ComputerSvc	NASDAQ
China GrenTech	GRRF	Tech.Hardware&Equip.	NASDAQ
China Life Insurance	LFC	Life Insurance	NYSE
China Mass Media International	CMM	Media	NYSE
China Medical Technologies	CMED	HealthCareEquip.&Ser	NASDAQ
China Mobile	CHL	Mobile Telecom.	NYSE
China National Offshore Oil-CNOOC	CEO	Oil & Gas Producers	NYSE
China Nepstar Chain Drugstore	NPD	Food &Drug Retailers	NYSE
China Petroleum & Chemical	SNP	Oil & Gas Producers	NYSE
China Southern Airlines	ZNH	Travel & Leisure	NYSE
China Sunergy	CSUN	Alternative Energy	NASDAQ
China Techfaith Wireless Communication	CNTF	Tech.Hardware&Equip.	NASDAQ
China Telecom	CHA	Fixed Line Telecom.	NYSE
China Unicom (Hong Kong) Limited	CHU	Mobile Telecom.	NYSE
ChinaEdu	CEDU	General Retailers	NASDAQ
City Telecom (H.K.)	CTEL	Fixed Line Telecom.	NASDAQ
CNInsure	CISG	Nonlife Insurance	NASDAQ
Corgi International	CRGI	Leisure Goods	NASDAQ
CTrip.com International	CTRP	Travel & Leisure	NASDAQ
E-House (China)	EJ	Real Estate Inv&Serv	NYSE
eLong	LONG	Travel & Leisure	NASDAQ
Focus Media	FMCN	Media	NASDAQ
Giant Interactive Group	GA	Leisure Goods	NYSE
Guangshen Railway	GSH	Travel & Leisure	NYSE
Gushan Environmental Energy	GU	Alternative Energy	NYSE
Home Inns & Hotels Management	HMIN	Travel & Leisure	NASDAQ
Huaneng Power International	HNP	Electricity	NYSE
Hurray!	HRAY	Mobile Telecom.	NASDAQ
Hutchison Telecommunications International	HTX	Mobile Telecom.	NYSE
JA Solar	JASO	Alternative Energy	NASDAQ
KongZhong	KONG	Mobile Telecom.	NASDAQ
Las Vegas Sands	LVS	Leisure Resorts	NYSE
LDK Solar	LDK	Alternative Energy	NYSE
Linktone	LTON	Mobile Telecom.	NASDAQ
Longtop Financial Technologies	LFT	Software&ComputerSvc	NYSE



G L O B A L M A R K E T S

Melco PBL Entertainment	MPEL	Travel & Leisure	NASDAQ
Mindray Medical International	MR	HealthCareEquip.&Ser	NYSE
Netease.com	NTES	Software&ComputerSvc	NASDAQ
New Oriental Education & Technology	EDU	General Retailers	NYSE
Ninetowns Internet Technology	NINE	Software&ComputerSvc	NASDAQ
Noah Education	NED	Leisure Goods	NYSE
O2Micro International	OIIM	Tech.Hardware&Equip.	NASDAQ
Perfect World	PWRD	Leisure Goods	NASDAQ
PetroChina	PTR	Oil & Gas Producers	NYSE
ReneSola	SOL	Alternative Energy	NYSE
Semiconductor Manufacturing International	SMI	Tech.Hardware&Equip.	NYSE
Shanda Interactive Entertainment	SNDA	Leisure Goods	NASDAQ
Simcere Pharmaceutical	SCR	Pharma. & Biotech.	NYSE
Sinopec Shanghai Petrochemical	SHI	Chemicals	NYSE
Solarfun Power	SOLF	Alternative Energy	NASDAQ
Spreadtrum Communications	SPRD	Tech.Hardware&Equip.	NASDAQ
Suntech Power	STP	Alternative Energy	NYSE
The9	NCTY	Leisure Goods	NASDAQ
Tongjitang Chinese Medicines	TCM	Pharma. & Biotech.	NYSE
Trina Solar	TSL	Alternative Energy	NYSE
UTStarcom	UTSI	Internet protocol	NASDAQ
VanceInfo Technologies	VIT	Software&ComputerSvc	NYSE
Vimicro International	VIMC	Tech.Hardware&Equip.	NASDAQ
VisionChina Media	VISN	Media	NASDAQ
WSP Holdings	WH	OilEquip.,Serv.&Dist	NYSE
WuXi Pharmatech	WX	Pharma. & Biotech.	NYSE
Xinhua Sports & Entertainment	XSEL	Media	NASDAQ
Xinyuan Real Estate	XIN	Real Estate Inv&Serv	NYSE
Yanzhou Coal Mining	YZC	Mining	NYSE
Yingli Green Energy	YGE	Alternative Energy	NYSE

There are several **ETFs** that follow the development of Chinese markets and can be traded on the US stock exchanges. Below are the two most popular funds which fall into investor's range:

- **iShares FTSE/Xinhua China 25 Index Fund (the Fund) (Ticker FXI)** - seeks investment results that correspond generally to the price and yield performance of the FTSE/Xinhua China 25 Index (the Index). The Index is designed to represent the performance of the largest companies in the Chinese equity market that are available to international investors. The Index consists of 25 of the largest and most liquid Chinese companies.



- **iShares MSCI Hong Kong Index Fund (the Fund) (Ticker EWH)** - seeks to provide investment results that correspond to the price and yield performance, before fees and expenses, of publicly traded securities in the aggregate in the Hong Kong market, as measured by the MSCI Hong Kong Index (the Index). The Fund invests in a representative sample of securities included in the Index that collectively has an investment profile similar to the Index.

3. Main Chinese Indexes and how they affect the Chinese ADRs

There are three indexes that track the pulse of the Chinese and Hong Kong markets:

- **Shanghai Composite Index** – which is constituted by all listed stocks (A shares and B shares) at Shanghai Stock Exchange. The Base Day for SSE Composite Index is December 19, 1990. The Base period is the total market capitalization of all stocks of that day. The Base Value is 100. The index was launched on July 15, 1991.

Shanghai Composite Index



- **Shenzhen Composite Index** is an actual market-cap weighted index (no free float factor) that tracks the stock performance of all the A-share and B-share lists on Shenzhen Stock Exchange. The index was developed on April 3, 1991 with a baseprice of 100.



Shenzhen Composite Index



- **Hang Seng Index** is the most watched index as most of the Chinese blue chips are also listed here and are available for trading from international investors. HIS is free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The components of the index are divided into four subindexes: Commerce and Industry, Finance, Utilities, and Properties. The index was developed with a base level of 100 as of July 31, 1964.

Hang Seng Index



Most of the components of those indexes are the most liquid stocks on Chinese capital markets. Most of them (mainly the blue chips) have ADRs. As it was mentioned above China has been closely monitored by all investors as news from there can affect markets worldwide. China is playing big part into the global economy and worldwide development. The economic power of China is quite respectable and all signals from there are closely watched as they prove to be market movers. Most of the Chinese companies grew in size to



world giants as their revenues and sales climbed dramatically and they are already operating on the international markets. It is a two way process in terms of market moving as the current recession in USA drove the markets worldwide into the red.

The U.S. and Chinese stocks markets are highly correlated and that also affect the movement of the Chinese ADRs. On positive news about a particular stock, for example, it is widely expected the ADR to react also positively. That is not a rule, however, as it's been witnessed an opposite market reaction of the ADRs, especially when there is an apocalyptic news about USA, that could sink not only a single stock but the whole market into red.

4. Recent news from China and market reaction

The most recent example of how economic news from China can influence the stock markets worldwide. News on the 4th of March 2009 for 585 bil. USD additional stimulus package in China drove the U.S. markets up as it was directed to manufacturing and infrastructure companies. All metal mining giants and commodity companies like Rio Tinto, Vale do Rio Doce, US Steel and Arcelor Mittal reacted positively and shoot up in the sky. Among them were also Chinese ADRs as they were closely affected by the news like China Aluminum which jumped 14% for one day.

The reverse effect was seen on 10th of March 2009 when American bank Citigroup and UK's HSBC Holdings Plc announced improved earnings. Citi's CEO announced that the company was profitable in January and February and is having its best quarter since the third quarter of 2007. Apart from jump in US stocks that news caused a big rally of all Chinese ADRs especially financial stocks and the effect prolonged and lifted Hong Kong 2%. At the same time China closed on red as a record drop in exports overshadowed a bigger-than-estimated increase in the nation's investment spending. At the opening of the US markets on 11th of March the most of the Chinese ADRs were red, contrary to the US shares which opened on green territory.

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