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CHINA RISING Investor Newsletter

Volume 1 • Issue 3 • May 2009

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CHINA RISING INVESTMENT CONFERENCE



May 18, 2009 • Yale Club • New York City

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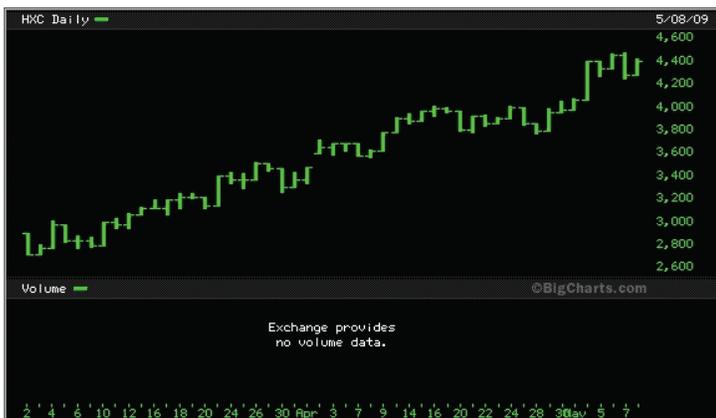
100 Flowers Blooming

Picking a Bouquet of Stocks as Spring Comes to China

By Crocker Coulson

As the weather turns balmy in Beijing, spring has come to the China equity markets as well – with “green shoots” sprouting across to the industrial heartland of the Middle Kingdom and green screens washing away red on the trading screens of China-focused fund managers. Since March 2nd, the Halter China Index of all Chinese stocks trading on a major U.S. market has rocketed up 62 percent. Over that same period the Hang Seng China Enterprise Index of HK-listed Chinese “red chips” has gained about 46 percent, while the Russell 2000 Index of U.S. small caps is up 28 percent. The China growth story is back and funds have started flowing back into Chinese equities that had been left for dead in the fall of 2008.

Halter China Index, March 2-May 8, 2009



What is driving this surge in performance?

It has become increasingly evident that China’s stimulus spending plan is having its desired effect of picking up industrial demand and at least partially compensating for the drop-off in exports due to the global recession. In late April, Goldman Sachs raised its growth forecasts for China’s GDP to 8.3 percent in 2009 (up from 6 percent) and to a sizzling 10.9 percent in 2010 (from a prior 9 percent). Support for housing, infrastructure and rural consumption has revived demand for basic industrial materials such as cement and steel and has begun to cause a turnaround in pricing for commodities such as iron, ore and copper. China’s banking system has loosened the monetary and credit taps, sending liquidity streaming into the corporate and real estate sectors and rekindling fixed investment. The confidence of China’s CEOs is sharply improved from only a few months ago, leading corporations to forge ahead with expansion plans.

For several years now, China’s government had been seeking to tamp down hot money inflows, real estate speculation, and credit availability in order to prevent economic overheating and inflation. For this reason the effect of the combined fiscal and monetary stimulus has been immediate and pronounced. The result has been a whipsaw market in which sectors such as property, transport and materials, from which investors fled en masse just months ago, have shown some of the most dramatic equity price gains on the Hong Kong exchange since the market turned in early March. The realization is building that China is positioned to come out of the global downturn faster and stronger than the developed economies – fueled by an underleveraged consumer, a solvent banking system, and a fully funded, rapidly deployed government stimulus plan.

Dead Cat Bounce?

Skeptics may argue that one of the greatest reasons for the dramatic recovery in U.S.-listed Chinese shares is simply that they had fallen so dramatically in the preceding quarters, wreaking carnage on the portfolios of anyone unlucky enough to hold them during 2008. Even a dead cat bounces when it hits the ground, the Wall Street adage has it. The top performers during the first quarter suggest there is some truth to this. While some of these names such as AgFeed (NASDAQ:FEED) and China Shenguo (AMEX:KUN) are up smartly in 2009, at 127% and 107% gains respectively, they have each lost nearly 80% of their value over the last year. In some cases the stocks have risen following dramatic downward resets in earnings expectations for 2009, calling into question how sustainable the rally in their shares will be.

An extreme example is the third strongest performer among China names this year, Fuwei Films Holdings (NASDAQ:FFHL), whose shares have gained 114% in 2009. Fuwei recently disclosed that its three major shareholders were found guilty by the Jinan Intermediate People’s Court of misappropriation of state-owned assets during the legal reorganization prior to Fuwei being listed as a U.S. public company. One shareholder, Mr. Jun Yin, has been sentenced to death and the other two to life imprisonment. Their 65 percent ownership has now been transferred back to the Chinese government, making Fuwei, with a market cap of just \$20 million, most likely the smallest State Owned Enterprise (SOE) listed in the U.S. markets. Investors that bought Fuwei’s shares in early 2007, before the issues with Fuwei’s management and subsequent deterioration in business outlook were disclosed, have lost 90 percent of their investment.

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China Rising Interview

Healthy Profits Ahead: Katherine Lu of Oppenheimer on Picking Winners in China's Healthcare Sector

Crocker: Can you describe your background and how you came to cover the healthcare sector in China?

Katherine: My background is very health-care related. I began my career as a scientist at Roche and Johnson & Johnson. Before I came to Wall Street, I worked as a healthcare management consultant. I started in equity research following large-cap medical device companies at Cowen & Co., and then joined CIBC in 2006, working in U.S. specialty pharmaceuticals. In 2007 we had the opportunity to initiate coverage on China healthcare.

Crocker: Is the healthcare sector in China one that investors should be exposed to right now? What do you see as the key factors driving the growth and demand there?

Katherine: I think healthcare definitely is a sector that investors should have incremental exposure to on the China side. While there are various estimates out there, we believe China's healthcare spending totaled \$170 billion in 2008, with \$40 billion of spending in the pharmaceutical sector, making it the 5th largest in the world. The growth is being driven by increased government spending. Earlier this month, the Chinese government announced its healthcare reform plan, which will increase government spending by RMB 850 billion in the next three years. Theoretically, if all this spending is incremental, then government spending on healthcare could double in the next three years. That will definitely drive sector growth in the next three to five years, and we expect the overall healthcare sector to grow over 20 percent on a compounded annual basis.

Crocker: I know that in the United States, most people who invest in healthcare – whether in biotech, specialty pharmaceuticals, or medical devices – place a lot of emphasis on intellectual property to drive stock values. I think many people have the impression that enforcing IP rights in China is very problematic. Do you think that's an accurate view?

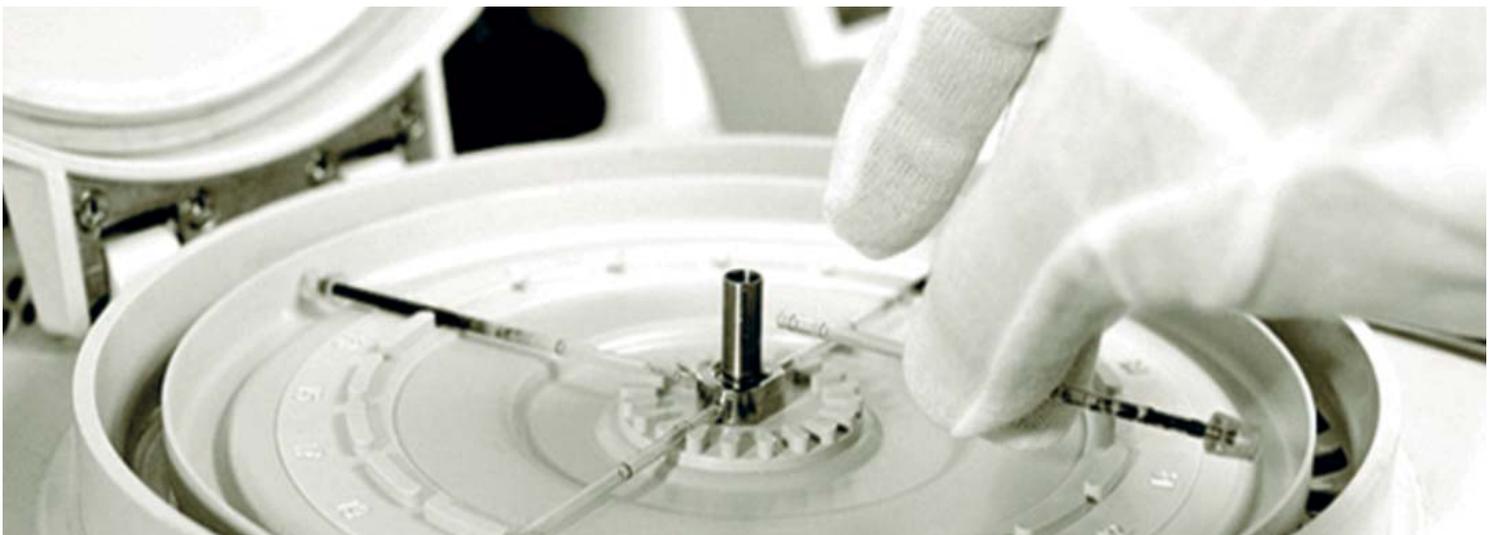
Katherine: I would agree with that view. But the government is definitely taking steps to improve the intellectual property environment.

China's pharmaceutical market is essentially a generic market. On that side, I think the importance of IP is low and will remain low. China must eventually improve its intellectual property environment in order to attract multinational players to introduce innovative therapeutics into the Chinese market, and I think that will happen at least in the next five to ten years.

Crocker: With that said, if you view intellectual property enforcement in China as relatively immature, does that translate to a different way that investors should be analyzing companies than perhaps they've been trained to by looking at U.S. healthcare?

Katherine: Absolutely. On the pharmaceuticals side, we use the U.S. specialty pharma model to look at the Chinese pharmaceutical market. China's pharmaceutical market is a generic market, but it is a branded generic market. So it's different from the United States. In China, a generic drug can actually have quite a long lifetime after

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China's Healthcare Reform

Groundbreaking Plan to Reshape and Drive Expansion in Healthcare Spending

By Karen Wang

On April 6, 2009, China unveiled Guidelines on Deepening the Reform of Healthcare System (hereinafter the "Guidelines"), a blueprint for health care over the next decade, kicking off a much-anticipated reform to fix the ailing medical system for the country's 1.3 billion citizens. By 2020, the world's most populous nation plans to have a basic health care system that can provide "safe, effective, convenient and affordable" health services to urban and rural residents, according to the tone-setting document.

The Guidelines will be supplemented by a more detailed implementation plan for the three years until 2011. The plan has yet to be published, but the State Council announced earlier this year an investment of 850 billion Yuan (US \$124 billion) to fully implement the health care reform plan.

These are the five major themes from the Guidelines.

- **Upgrade of the basic medical insurance system** – The percentage of Chinese citizens covered by the basic medical insurance plan is expected to surpass 90 percent by 2011. Health-care reimbursement and subsidy limits for the unemployed and farmers will increase to six times annual average income.
- **Setup of essential (or basic) drug system** – In order to reduce prescription costs and ensure the supply of basic drugs, public hospitals and clinics will be supplied with essential medicines at government-regulated prices. The essential drugs will be selected based on disease prevalence, efficacy and safety evidence, and comparative cost effectiveness.
- **Replenishment of grass-roots medical service system** – Central and local governments will increase investment in

grass-roots-level hospitals and clinics in cities and rural areas, which are often ill equipped and understaffed.

- **Improvement of community sanitary services** – Urban and rural citizens will be provided basic community sanitary services, including disease prevention and control, planned immunity, female and infant care, and health education.
- **Reform of state-run hospitals** – Public hospitals will receive greater government funding and be permitted to charge higher fees for treatments. However, these hospitals will be banned from realizing profits generated by prescribing unnecessary expensive medicines and treatments. Private hospitals will also be encouraged to invest in their facilities to eliminate shortages of medical supplies.

After more than ten years of debate, China's medical reform plan has the potential to fundamentally change the country's health care industry for the next few decades. There are many stakeholders including state-run hospitals, private hospitals, doctors, patients, pharmaceutical companies, medical device manufacturers and distributors. The reform of the health care system also has significant implications for investors in Chinese health-care industry equities.

- First, the reform will drive an even faster pace of expansion in health care spending, which has already been growing at more than twice the rate of GDP. The rapidly expanded insurance coverage and higher percentage of reimbursement will increase available spending on pharmaceuticals, medical devices and health care services.

Statistics from urban hospitals illustrate that anti-infection drugs now account for 24 percent of all prescription drugs, followed by drugs for tumors, immunity, cardiac and blood system, digestive

system, hematopoietic system and nerves, whose sales are all growing rapidly.

- The basic drug system will likely drive consolidation in the manufacture of basic medicines as only large-scale, highly efficient producers will be able to generate profits on generics under the new pricing scheme. While the detailed action plan hasn't been publicized, a wail of protest has already arisen from many small producers.

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China Investor News Clipping Service

A Summary of Vital News You Will Find Only in Chinese Language Publications

Chinese, American companies ink contracts worth \$10.6 billion

April 28, 2009 JRJ.com

Chinese and U.S. firms signed 32 trade and investment contracts worth \$10.6 billion on April 27, 2009. China Telecom signed contracts with Cisco, Microsoft, Dell and Emerson. China Mobile signed contracts with Hewlett-Packard, Alcatel - Lucent, Oracle, Emerson, Sun Microsystems and Cisco Systems. China Construction Bank signed contracts with Microsoft, IBM, HP and Cisco. No details of these contracts have been disclosed.

Customs data indicated that during the first two months of 2009, China's exports to the United States reached \$29.1 billion, down 16.1% on year-over-year basis. Meanwhile China's imports from the U.S. declined 20.9% to \$10.4 billion. The cumulative trade surplus reached \$18.6 billion.

China energy consumption improves in Q1

April 28, 2009 Xinhua

Energy supply and consumption increased in China during the first quarter of 2009. Major energy consumption enterprises reported lower decline rates, according to the National Bureau of Statistics.

Preliminary statistics show that in the first quarter, the total national energy supply (production plus net imports) was approximately 655 million tons of standard coal, up 3.5% on a year-over-year basis and up 1.7% compared to the fourth quarter of 2008. As part of the total supply, 585 million tons of standard coal were produced, an increase of 4.3%. Net imports declined 3.3% to 69.8 million tons of standard coal.

In the first quarter of 2009, total national energy consumption was 664 million tons of standard coal, up 3.0% year over year and an increase of 2.3% compared to the fourth quarter of 2008. By the end of the first quarter, energy inventory declined 2.9% year over year.

Coal, electricity and other energy consumption categories have also increased, while oil consumption dropped. During the first quarter, coal consumption was 649 million tons, marking a 2.7% increase year over year. Electricity consumption declined 4.0% year over year to 781 billion kwh. Refined oil consumption dropped 6.4% year over year to 57.4 million tons.

Preliminary statistics show that during the first quarter, the energy consumption from major industrial enterprises (annual energy consumption is more than 10,000 tons of standard coal) was down

5%. Energy consumption from key industrial enterprises continued to show recovery for the fourth consequent month with a 2.3% increase.

China will take actions to increase production capacity in 13 industries

April 23, 2009 Reuters China

Chinese Environmental Protection Minister Zhou Shengxian said, in 2009 that the state government will take actions to shut down low-capacity factories in 13 industries. These industries are power, steel, iron, ferroalloy and coke industries. The policy will set strict environmental controls within these industries while ensuring national environmental security and stimulating the domestic consumption.

China's first government fund to help small and medium-sized enterprises

April 21, 2009 Reuters China

China's Ministry of Science and Technology and the Ministry of Finance approved six venture capital equity investment fund projects on Tuesday, which is the first time the Chinese government cooperated with investment companies to support small- to medium-sized technology start ups. Xinhua News Agency reported on Tuesday that the government invested 159 million yuan from the central budget and the six venture funds jointly raised 105 million yuan to pool together the 264 million yuan.

In March, China became a net importer of steel with sharp drop in exports

April 17, 2009 Xinhua

According to China Customs, during the first quarter of 2009, Chinese steel exports declined 55% to 5.2 million tons. In March, China exported 1.7 million tons of steel while importing 1.3 million tons and therefore had net imports of approximately 460,000 tons.

In 2008, China's steel output and export volumes ranked first in the world. However, in 2009, China's steel prices have fallen to 15-year lows. At the same time, China has about 160 million tons of surplus steel. Industry insiders believe that China's steel exports fell sharply because China's economic stimulus policies supported the domestic steel market, which is better than the international market. In addition, the appreciation of the Yuan against the U.S. dollar and the depreciation of other currencies against the U.S. dollar further hindered exports while stimulating demand for imports.

CCG China Stocks in the News

Compiled by CCG Staff

American Lorain Corporation (OTCBB: ALRC)

4/13/09 – ALRC reported strong financial results for the year ended December 31, 2008. For the full year 2008, net revenues were \$132.4 million, up 61.2% from \$82.1 million in 2007. Net income for 2008 increased to \$14.7 million, or \$0.58 per diluted share, from \$9.7 million, or \$0.42 per diluted share in 2007.

China Biologic Products, Inc. (OTCBB: CBPO)

4/27/09 – CBPO announced it received an order from one of the largest authorized biopharmaceutical distributors in India to ship Company products valued at \$5.3 million to be sold under the Company's own brand.

4/17/09 – CBPO announced it completed the third installment payment towards the acquisition of a 90% equity interest in Chongqing Dalin Biologic Technologies Co. Ltd. ("Dalin"), and is now entitled to all the rights and privileges of a 90% shareholder in Dalin and its 54% majority-owned operating subsidiary, Qianfeng Biological Products Co., Ltd.

4/01/09 – CBPO reported record results for the fiscal year ended December 31, 2008. Revenues increased 44.3% to \$46.8 million; net income was up 46.5% to \$12.0 million, or \$0.56 per diluted share.

China-Biotics, Inc. (NASDAQ: CHBT)

4/22/09 – CHBT announced it signed an agreement with Dabeinong Group ("Dabeinong") to supply probiotics as bulk additives for poultry feed products. Under the initial purchase order, which has already begun shipping, China-Biotics will provide probiotics such as lactobacillus acidophilus and streptococcus faecalis.

China Clean Energy, Inc. (OTCBB: CCGY)

4/21/09 – CCGY announced that its wholly-owned subsidiary, Fujian Zhongde Technology Co., Ltd., secured a credit line for up to RMB 21 million (equivalent to approximately US \$3 million) from Fuzhou City Commercial Bank. CCGY expects to use this credit facility to complete the new Jiangyin plant and fund the working capital requirements associated with the start up of production for biodiesel and specialty chemicals.

China XD Plastics Company Ltd. (OTCBB: CXDC)

4/23/09 – China XD Plastics Company Ltd. announced that the Company expects to increase its annual production capacity to 70,000 tons with the addition of 7 production lines acquired at the end of 2008, an increase of 45,000 tons from 25,000 tons in 2007.





4/17/09 – China XD Plastics Company Ltd. announced that the Company's wholly owned subsidiary, Harbin Xinda Macromolecule Material Research Institute ('Xinda Research Institute'), is collaborating with Harbin Institute of Technology on the pre-research of pre-foamed modified polypropylene ('PP') and has successfully completed a small trial testing.

4/14/09 – China XD Plastics Company Ltd. announced that the Company's wholly owned subsidiary, Harbin Xinda Macromolecule Material Co., Ltd. ('Xinda'), has been re-certified for the ISO/TS16949:2002 Certification of Quality Management System.

China Information Security Technology, Inc. (NASDAQ: CPBY)

4/15/09 – CPBY announced that its newly signed contracts in the first quarter of 2009 were valued at \$18.5 million.

China Medicine Corporation. (OTCBB: CHME)

4/24/09 – CHME announced that it achieved a major milestone for its novel product, recombinant aflatoxin detoxifzyme (rADTZ), which has the potential to detoxify aflatoxin (AFT), a cancer causing agent, in food and feed. CHME's indirect subsidiary, Guangzhou Co-Win Bioengineering Co., Ltd., received a manufacturing license for premixed feed additive and a manufacturing license for feed additive for its production facility leased from Guangzhou Municipal Microbe Research Institute.

4/15/09 – CHME announced it signed a two-year renewable agreement with Heilongjiang Liao Yuan Technology, Inc. for exclusive provincial-level rights to distribute Nianlianping in Guangdong province, with the exception of Foshan, Zhongshan, Dongguan areas and Guangzhou Military Hospital. Nianlianping is a medical macrogol berberine solution used to restrain tissue from adhering to the lesion site after surgical operations.

China Sky One Medical, Inc. (NASDAQ: CSKI)

4/23/09 – CSKI announced that it obtained approvals from the State Food and Drug Administration (SFDA) in China for the production of Geranium ointment and Musk liniment for pain relief. CSKI estimates that the two products combined will contribute \$0.8 million to revenues in 2009.

4/23/09 – CSKI announced record fourth quarter and fiscal year 2008 revenues for the period ended December 31, 2008. Fourth quarter revenue increased 104.0% to \$26.0 million and fourth quarter net income increased 68.8% to \$6.9 million. Full year 2008 revenue increased 86.2% to \$91.8 million and full year net income increased 88.2% to \$28.9 million.

China TransInfo Technology Corp. (NASDAQ: CTFO)

4/21/09 – CTFO announced that the Company signed two contracts, one in Gansu Province and one in Shanxi Province, with a combined value of roughly RMB 16.0 million, or approximately \$2.3 million. According to the terms of the Gansu contract, China

TransInfo will construct the Gansu Transportation Geographic Information System (GIS) platform for the Gansu Provincial Ministry of Communication ("MOC") which will be used to collect and analyze local transportation data. In Shanxi, China TransInfo will construct a customized GIS platform for the Shanxi Provincial Department of Forestry, a provincial division under the China Ministry of Forestry. The system will be used to conduct real-time 3D monitoring.

4/13/09 – CTFO announced that the Company has signed a contract with the Beijing Transportation Information Center. According to the terms of the contract, valued at about RMB 12.2 million, or approximately U.S. \$1.78 million, China TransInfo will construct the Beijing Transportation Information Center's Transportation Industry Data Center System Database.

4/6/09 – CTFO announced that ten of the Company's transportation information products and applications have recently been included on the Beijing Municipal Government's most recent procurement list including the traffic volume collection equipment and data center, Electronic Toll Collection (ETC) system, Intellectual Parking Indication System, Comprehensive Transportation Management System, Smart Public Transportation Management System, and mobile phone-based Dynamic Traffic Information Service Platform.

China Valves Technology, Inc. (OTCBB: CVVT)

4/22/09 – CVVT announced that it acquired 100% equity ownership of Taizhou Wote Valve Co., Ltd., a manufacturer of mid- and small-diameter metal butterfly valves. The Company paid \$3.0 million for Taizhou Wote, and plans to spend an additional \$1.0 million to upgrade production technology and manufacturing equipment. China Valves expects its acquisition to generate \$7.4 million in sales revenues and \$1.5 million in net income during the next twelve months.

China Wind Systems, Inc. (OTCBB: CWSI)

4/30/09 – CWSI announced that Drew Bernstein joined its board of directors as an independent director. The Company also announced that Gerry Goldberg and Raymond Pirtle, Jr. have resigned as directors after completing one year of service.

4/22/09 – CWSI announced that its wind power business development was covered by Reuters, CFO.com, Cleantech Group, and New Energy Finance. The March 2009 issue of New Energy Finance featuring the interview is available on the Company's website.

Genesis Pharmaceuticals Enterprises, Inc. (OTCBB: GNPH)

4/23/09 – GNPH announced that it changed its name from Genesis Pharmaceuticals Enterprises, Inc. to "Jiangbo Pharmaceuticals, Inc." to align its public company name with its popular "Jiangbo" brand name products sold through the Company's wholly owned operating subsidiary Laiyang Jiangbo Pharmaceutical Co., Ltd.

4/22/09 – The Company began marketing and selling the first three Traditional Chinese Medicines (“TCMs”) out of the 22 TCMs it recently acquired from Hongrui Pharmaceuticals. They are Yi Mu Cao Gao (a motherwort herb electuary sticky syrup), Gan Mao Zhi Ke Ke Li (an antipyretic and antitussive granule), and Kang Gu Sui Yan Pian (an osteomyelitis treatment tablet). The TCMs are being relabeled and are being sold under Genesis’ brand name “Jiangbo.”

4/2/09 – GNPH affirmed its operating income guidance of \$40 to \$43 million for its fiscal year ending June 30, 2009, and adjusted its revenue guidance to a range of \$111 to \$116 million as a result of restructuring how it distributes and sells its products.

Puda Coal Inc. (OTCBB: PUDC)

4/21/2009 – Puda Coal announced that it received approval from the Yuncheng municipal government to consolidate six coal mines in Pinglu County, Shanxi Province on April 1, 2009. According to the letter of intent signed in January 2009, the consolidation of the coal mines requires approval from the Shanxi provincial government. Following approval of the project from the provincial government, the Company will launch the project to acquire or merge those six coal mines.

ShengdaTech, Inc. (NASDAQ: SDTH)

4/15/09 – ShengdaTech, Inc. announced that the Company’s Board of Directors appointed Mr. Andrew Weiwen Chen as ShengdaTech’s new Chief Financial Officer effective April 15, 2009. The Company also announced that Ms. Anhui Guo resigned from her position as Chief Financial Officer and was appointed Chief Operating Officer, effective April 15, 2009. Ms. Guo will also continue to serve on the Company’s Board of Directors.

4/02/09 – ShengdaTech, Inc announced record fourth quarter and full-year 2008 results. In the fourth quarter of 2008, revenue increased 11.0% year-over-year to \$31.8 million, gross margin increased to 43.0%, and net income increased 62.8% year-over-year to \$12.7 million, or \$0.11 per diluted share. In the full year of 2008, revenue increased 48.5% to \$149.4 million, gross margin was 36.9%, and net income increased 48.1% to \$40.0 million, or \$0.60 per diluted share.

Trina Solar (NYSE: TSL)

4/20/09 – TSL announced three new sales agreements totaling approximately 42 MW of PV modules for delivery in 2009 with customers in Germany, including 12 MW with Bull Solar GmbH.

4/14/09 – TSL announced the completion of a 4.7MW photovoltaic facility developed by ErgyCapital in the town of Serravalle Scrivia in

the Piedmont region of Italy. The project is currently Italy’s largest photovoltaic facility and single roof-mounted solar system, involving approximately 38,000 square meters of solar panels. TSL was the sole supplier of PV modules to ErgyCapital used on the rooftop installation.

Universal Travel Group Inc. (OTCBB: UTVL)

4/28/09 – UTVL announced that Mr. Jing Xie, Chief Financial Officer of Universal Travel Group, was featured in a live interview on Bloomberg TV Asia’s Asia Confidential, where he discussed current trends in the travel industry.

4/27/09 – UTVL announced that it was presented the Best Sales Award by China Southern Airlines on April 20, 2009.

4/22/09 – UTVL announced it expects to benefit from recent changes in domestic airfare discount rates offered by domestic airlines. According to a news report by the Xinhua News Agency on April 19, 2009, the government recently instituted a new airfare pricing system designed to partially roll back some of the deep discounting that has battered airline industry earnings.

4/15/09 – UTVL announced it formed a partnership with Fantasia Property Management Co., Ltd., as a first step, to install 50 TRIPEASY Kiosks at 20 locations in Shenzhen.

4/13/09 – UTVL announced it expects to benefit from an increase in travel expenditure by consumers. According to a consumer survey published by China Confidential, a Financial Times publication, on April

2, 2009, “Demand for personal travel expenditure remains robust, as demonstrated by the 71% of respondents saying they would keep holiday expenditure the same or increase it this year.”

4/08/09 – UTVL announced the launch of its newly designed corporate website. The new website will integrate the Company’s three previous, separate ones (Classic, TRIPEASY, and Easytrip versions) into a single more integrated and streamlined platform.

4/06/09 – UTVL announced the appointment of Mr. David Liu to the position of VP of Finance and Investor Relations. Mr. Liu will be based in the U.S. to assist the CFO in managing investor relations for the Company.

Yongye Biotechnology International, Inc. (OTCBB: YGYB)

4/28/09 – Mr. Larry Gilmore, Yongye’s VP of Corporate Finance, was interviewed by The China Perspective, a leading online source of business news about the Chinese economy. Mr. Gilmore spoke



about how Yongye's products help Chinese farmers increase the quality and quantity of their agricultural yields. He reviewed how Yongye recently expanded its production and sales capabilities to meet increasing demand for Yongye products.

4/21/09 – Yongye announced preliminary financial results for its fiscal quarter ended March 31, 2009. The Company expects net revenue for the quarter ended March 31, 2009 to be \$12.0 million to \$12.5 million, up approximately 26% to 31% from \$9.5 million for the quarter ended March 31, 2008. Net income is expected to be \$2.75 million to \$3.0 million, up approximately 145% to 168% from the corresponding previous quarter, and fully diluted EPS are expected to be \$0.13 to \$0.15.

4/14/09 – The Company appointed Mr. Sean Shao to serve as an Independent Director on the Company's Board of Directors and Chairman of Yongye's Audit Committee.

4/1/09 – YGYB named Mr. Sam Yu to be the Company's new Chief Financial Officer, responsible for the Company's financial planning, reporting and control activities.

Zhongpin Inc. (NASDAQ: HOGS)

4/28/09 – HOGS announced that it began construction of its new pork products facility located in the Jinghai Economic Technical Development Area in Tianjin City. The new facility will add 100,000 metric tons in annual chilled and frozen pork capacity and 36,000 metric tons in annual low temperature prepared meat production capacity.

4/27/09 – HOGS announced that the Company's inspection center has received the NCAC certificate from the China National Accreditation Service ("CNAS") for Conformity Assessment.

4/24/09 – HOGS announced that the Company will begin production of fruits and vegetables at its new facility in Henan Province on April 25, 2009. The new processing facility is located in Changge City, Henan Province with a total production capacity of 30,000 metric tons. Upon successful commencement of production at the new facility, the total production capacity of fruits and vegetables will increase by 138% from 12,600 metric tons to 30,000 metric tons.

4/7/09 – HOGS announced that its CFO, Mr. Warren Wang, gave a live interview at the studios of Bloomberg TV Asia on April 1, 2009. The interview addressed the recent meat processing industry in China and Zhongpin's growth drivers for its strong performance in fiscal year 2008.

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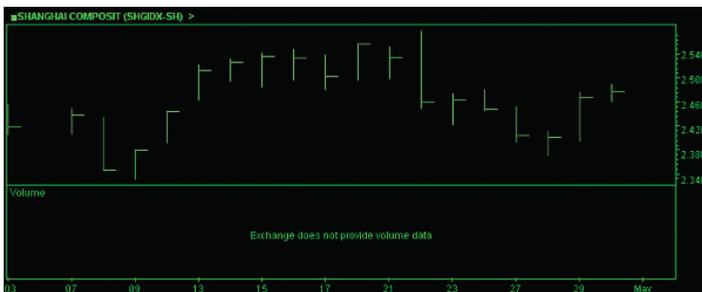
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Market Trend Analysis: April Not So Cruel

By Gary Chin

During the month of April, equity markets continued to rebound across the board. The Shanghai Stock Exchange Composite Index (SSE) rose 4.4% in April and has risen spectacularly 36.1% year-to-date. This time, the Halter USX China Index outperformed its China-listed counterpart by rising 18.1% during April but continued to lag on a year-to-date basis with an increase of 16.7%.



Shanghai Composite (SHGIDX.SH)



HK:1604627 Daily

On average, U.S.-listed Chinese equities on the NYSE rose 20.4% for the month and 15.2% year-to-date, while NASDAQ listed securities increased 25.1% for April and 21.0% year-to-date. NYSE Amex members gained 40.4% during April and 40.0% year-to-date. OTCBB listed Chinese securities rose 27.2% during the month and 34.1% on average year-to-date. The valuation gap remains between U.S.-listed Chinese equities traded on senior exchanges (NYSE, NASDAQ) versus OTCBB listed securities, with very attractive risk/reward profiles.

Valuations Still Attractive

Despite their run-up in April, U.S.-listed Chinese stocks continue to trade at attractive valuations. On the NYSE, the average trailing P/E



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was 8.7X, the average price-to-book was 1.6X, and the average enterprise value-to-EBITDA ratio was only 2.2X. The forward P/Es for NYSE listed companies in 2009 are higher than trailing, at 20.0X.

NASDAQ listed Chinese equities have an average trailing P/E of 12.3X, a forward P/E of 19.7X, an EV/EBITDA of 6.6X, and a price-to-book of 1.9.

On the NYSE Amex, trailing P/Es were negative as most equities on this exchange were unprofitable. However, the average price-to-book was 1.7X, and the average enterprise value-to-EBITDA ratio was 9.4X.

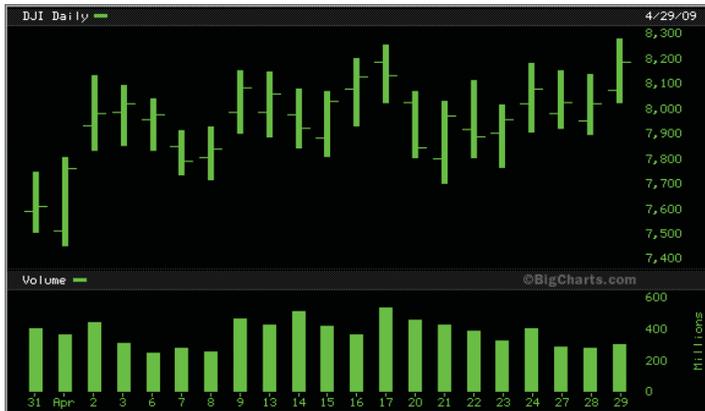
Despite an increase of 27.3% for OTCBB listed companies during April, these stocks trade with an average trailing P/E of 6.7X and an average EV/EBITDA of 2.9X. The average price/book of 25.4X in our proprietary database was skewed by one outlier but the median was 0.5X, so valuations still appear very compelling. (Calculations are based on the full universe of Chinese OTC issuers tracked in our proprietary database.)

More Evidence Points toward a Recovery

Key first quarter economic data showed that China's aggressive stimulus policy has been working. As a result, Goldman Sachs raised its real GDP forecasts for 2009 to 8.3% (versus 6.0% previously) and for 2010 to 10.9% (up from 9.0%). Fixed asset investment in urban areas, China's capital spending benchmark, rose 30.3% year over year in March, which was up from 26.5% growth in the first two months of 2009. In addition, China's industrial production rose 8.3% in March, better than the 3.8% gain



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in January and February. Bank lending continued to soar in March to 1.89 trillion Yuan, contributing to 4.58 trillion Yuan in the first quarter of 2009. Retail sales in March surged 14.7% compared to the year earlier, and were up 15% in the first quarter of 2009, driven by strong discretionary spending. Car sales hit a monthly record in March and home purchases and air travel rebounded from declines late last year. Finally, China's money supply jumped 25.5% in the first quarter versus a year earlier.

It appears that investors' appetite for risk has returned. During this recent recovery, the smaller, less liquid equities that were beaten down the most during the past year have performed the best.





U.S. Listed Chinese Stocks Performance and Valuation Summary (through April 30, 2009)

Information taken from publicly available sources, not deemed to be reliable.

Ticker	Company Name	Exchange	Price (Prev Close)	Shares Outstanding (MM)	Market Capitalization (MM)	Price % Change 1 month to date	Price % Change Year to date	52 Week Price Change (%)	P/B Ratio LFY	Price/Sales TTM	P/E Ratio TTM	Forward P/E Ratio	EV/EBITDA TTM
ACH	ALUMINUM CORP OF CHINA (CHALCO) (ADR)	NYSE	\$ 19.23	540.98	10403.05	31.53	42.34	-55.09	1.31	--	--	--	--
ADY	AMERICAN DAIRY INC	NYSE	\$ 16.02	17.25	276.35	-6.21	6.52	38.10	0.99	1.76	18.00	33.38	16.4898813
AOB	AMERICAN ORIENTAL BIOENGINEERING	NYSE	\$ 4.24	78.25	331.78	9.84	-37.56	-55.93	--	1.25	5.58	5.46	--
ATV	ACORN INTERNATIONAL INC (ADR)	NYSE	\$ 3.24	28.67	92.89	-9.75	-16.92	-52.77	0.38	0.38	-3.60	--	--
CEA	CHINA EASTERN AIRLINES 'H' (ADR)	NYSE	\$ 16.89	47.37	800.08	9.82	10.39	-61.07	Neg	--	--	--	--
CEO	CNOOC LTD (ADR)	NYSE	\$ 111.35	446.68	49737.82	10.69	16.92	-37.29	2.19	--	--	8.28	--
CHA	CHINA TELECOM CORP LTD (ADR)	NYSE	\$ 49.37	809.32	39956.13	19.16	29.75	-26.96	1.21	--	--	53.09	--
CHL	CHINA MOBILE LTD (ADR)	NYSE	\$ 43.16	4010.00	173071.60	-0.83	-15.12	-50.00	2.80	--	--	10.25	--
CHU	CHINA UNICOM (HK) LTD (ADR)	NYSE	\$ 11.57	2380.00	27536.60	11.14	-5.16	-46.36	0.84	1.28	13.30	18.97	3.62280483
CMM	CHINA MASS MEDIA INTERNATIONAL A (ADR)	NYSE	\$ 3.11	23.88	74.31	68.22	119.71	--	--	0.44	3.58	5.36	--
CSR	CHINA SECURITY & SURVEILLANCE TE	NYSE	\$ 6.78	49.98	338.86	76.56	53.05	-65.14	0.89	0.75	4.16	3.20	2.33459828
DL	CHINA DISTANCE EDUCATION HOLDING (ADR)	NYSE	\$ 5.83	35.33	205.97	7.17	46.48	--	1.99	0.00	-36.44	27.76	--
EDU	NEW ORIENTAL EDUCATION & TECH GR (ADR)	NYSE	\$ 52.98	38.05	2015.89	5.43	-3.51	-29.42	--	7.38	33.75	33.33	0.12003159
EJ	E-HOUSE CHINA HOLDINGS LTD (ADR)	NYSE	\$ 12.39	79.77	988.35	59.46	52.96	-25.90	--	6.61	27.53	24.68	-1.6327085
GA	GIANT INTERACTIVE GROUP INC (ADR)	NYSE	\$ 8.27	227.02	1877.46	21.62	27.43	-49.20	2.34	8.11	12.72	13.50	7.66632725
GRO	AGRIA CORP (ADR)	NYSE	\$ 1.77	63.20	111.86	56.64	18.79	-59.12	--	2.39	44.25	--	1.5761104
GSH	GUANGSHEN RAILWAY 'H' (ADR)	NYSE	\$ 22.29	141.67	3157.82	37.68	18.31	-22.82	1.09	--	--	--	--
GU	GUSHAN ENVIRONMENTAL ENERGY LTD (ADR)	NYSE	\$ 2.41	83.42	201.04	42.60	30.98	-80.72	--	0.92	5.24	12.47	-1.5466943
HNP	HUANENG POWER INTERNATIONAL INC (ADR)	NYSE	\$ 27.23	301.38	8206.58	1.42	-6.68	-19.08	1.56	0.25	9.73	--	1.38676604
HTX	HUTCHISON TELECOMMUNICATIONS INT (ADR)	NYSE	\$ 4.46	320.96	1431.48	-5.31	10.12	-78.81	0.63	--	--	--	--
KHD	KHD HUMBOLDT WEDAG INTL LTD	NYSE	\$ 8.67	30.52	264.61	25.47	-22.38	-70.09	1.02	0.41	-34.68	12.73	-2.5733508
LDK	LDK SOLAR CO LTD (ADR)	NYSE	\$ 8.00	113.11	904.88	26.18	-39.02	-74.80	0.97	0.55	6.35	7.20	12.8060264
LFC	CHINA LIFE INSURANCE CO LTD (ADR)	NYSE	\$ 52.95	1880.00	99546.00	7.53	14.12	-19.28	3.85	--	--	38.09	--
LFT	LONGTOP FINANCIAL TECHNOLOGIES L (ADR)	NYSE	\$ 23.66	50.67	1198.85	11.45	56.48	18.60	--	12.53	26.29	24.65	-3.2395616
MR	MINDRAY MEDICAL INTERNATIONAL LT (ADR)	NYSE	\$ 22.82	107.90	2462.28	23.28	26.78	-32.88	--	3.14	23.77	18.71	1.18976692
NED	NOAH EDUCATION HOLDINGS LTD (ADR)	NYSE	\$ 3.14	40.20	126.23	4.32	-0.32	-49.03	0.58	1.40	6.55	9.97	-1.265678
NPD	CHINA NEPSTAR CHAIN DRUGSTORE LT (ADR)	NYSE	\$ 5.06	104.15	527.00	24.94	0.20	-57.01	1.21	1.51	21.08	18.73	12.7798835
NTE	NAM TAI ELECTRONICS INCORPORATED	NYSE	\$ 4.14	44.80	185.47	11.29	-24.73	-59.84	0.55	0.30	8.28	103.50	-3.3706153
PTR	PETROCHINA CO LTD (ADR)	NYSE	\$ 86.91	1830.00	159045.30	9.05	-2.33	-42.50	1.37	0.12	9.58	16.12	--
QXM	QIAO XING MOBILE COMMUNICATION C	NYSE	\$ 2.78	47.61	132.36	38.31	9.45	-56.77	0.37	0.44	2.38	2.53	-2.0194743
SCR	SIMCERE PHARMACEUTICAL GROUP (ADR)	NYSE	\$ 7.02	61.02	428.36	25.36	-2.09	-44.24	2.36	1.73	8.81	8.80	7.1912522
SHI	SINOPEC SHANGHAI PETROCHEMICAL C (ADR)	NYSE	\$ 33.99	72.00	2447.28	38.06	29.93	-14.06	1.32	--	--	--	--
SMI	SEMICONDUCTOR MANUFACTURING INT' (ADR)	NYSE	\$ 1.96	447.01	876.14	2.08	-7.11	-48.56	0.34	0.65	-2.31	--	3.99587535
SNP	CHINA PETROLEUM & CHEMICAL CORP (ADR)	NYSE	\$ 77.60	867.02	67280.75	20.93	25.59	-27.82	1.40	--	14.01	10.49	--
SOL	RENESOLA LTD (ADR)	NYSE	\$ 3.47	67.83	235.37	-13.25	-21.32	-79.28	1.11	0.15	-4.82	6.83	-19.837905
SSW	SEASPAN CORP	NYSE	\$ 6.56	66.80	438.21	-20.19	-26.21	-75.32	0.97	1.85	5.75	5.85	7.99737047
STP	SUNTECH POWER HLDGS CO LTD (ADR)	NYSE	\$ 14.93	154.44	2305.79	27.72	27.61	-66.62	1.86	1.20	24.08	33.41	13.5980643
STV	CHINA DIGITAL TV HOLDING CO LTD (ADR)	NYSE	\$ 8.36	57.30	479.03	24.22	-0.24	-50.42	4.91	6.82	11.61	12.69	4.27902424
TCM	TONGJITANG CHINESE MEDICINES CO (ADR)	NYSE	\$ 3.69	33.84	124.87	8.53	23.00	-55.00	--	1.88	26.40	61.50	-7.0880568
TSL	TRINA SOLAR LTD (ADR)	NYSE	\$ 14.14	25.61	362.13	35.70	52.21	-66.48	--	0.43	6.17	13.47	--
VIT	VANCEINFO TECHNOLOGIES INC (ADR)	NYSE	\$ 7.96	37.34	297.23	59.20	67.58	-6.90	2.03	--	19.41	16.76	--
WH	WSP HOLDINGS LTD (ADR)	NYSE	\$ 3.58	100	358.00	-2.19	-15.17	-43.26	0.76	0.39	3.73	5.37	--
WX	WUXI PHARMATECH CAYMAN INC (ADR)	NYSE	\$ 5.77	66.17	381.80	27.37	-27.78	-68.71	6.90	--	-5.71	13.25	--
XIN	XINYUAN REAL ESTATE CO LTD (ADR)	NYSE	\$ 4.72	75.51	356.41	26.20	93.44	-47.73	0.87	--	-9.44	18.15	--



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YGE	YINGLI GREEN ENERGY HOLDING CO L (ADR)	NYSE	\$ 6.98	126.92	885.90	15.95	14.43	-68.32	1.18	--	9.05	10.98	--
YZC	YANZHOU COAL MINING CO LTD (ADR)	NYSE	\$ 9.57	491.84	4706.91	33.47	27.26	-48.37	1.56	--	--	--	--
ZNH	CHINA SOUTHERN AIRLINES CO LTD (ADR)	NYSE	\$ 11.68	141.23	1649.57	20.41	37.57	-46.65	1.82	--	--	--	--
	Group Average					20.39	15.23	-46.20	1.60	2.16	8.73	19.99	2.27
	Group Median					20.41	14.12	-49.20	1.21	1.20	8.54	13.36	1.48
ACTS	ACTIONS SEMICONDUCTOR CO LTD (ADR)	NASDAQ	\$ 1.74	86.00	149.64	9.43	8.07	-54.92	--	1.57	5.44	--	-6.7368683
AMCN	AIRMEDIA GROUP INC (ADR)	NASDAQ	\$ 5.62	66.71	374.58	34.01	16.98	-71.73	0.91	3.14	10.59	16.23	6.77741717
APWR	A-POWER ENERGY GENERATION SYSTEM	NASDAQ	\$ 8.25	33.52	276.54	90.09	91.86	-47.78	3.11	1.02	9.59	9.00	--
ASIA	ASIAINFO HOLDINGS INC	NASDAQ	\$ 16.75	43.49	728.46	-0.59	41.47	37.63	3.26	4.14	25.00	21.49	20.4360495
ATAI	ATA INC (ADR)	NASDAQ	\$ 4.49	22.85	102.6	4.42	-11.79	-57.24	1.78	3.22	32.07	30.97	--
BEST	SHINER INTERNATIONAL INC	NASDAQ	\$ 0.89	24.65	21.94	30.88	-1.11	-74.45	0.69	0.43	4.45	5.56	3.11372665
BIDU	BAIDU INC (ADR)	NASDAQ	\$ 232.90	34.55	8046.70	31.88	78.37	-36.30	16.60	11.80	51.07	42.56	26.4821634
BJGP	BMP SUNSTONE CORP	NASDAQ	\$ 3.90	41.50	161.85	20.74	-29.98	-44.99	0.94	1.41	-43.33	97.50	4.05010695
BNSO	BONSO ELECTRONIC INTERNATIONAL I	NASDAQ	\$ 1.29	5.58	7.22	40.62	105.35	-40.61	0.31	--	--	--	--
CAAS	CHINA AUTOMOTIVE SYSTEMS INC.	NASDAQ	\$ 4.83	26.98	130.31	37.61	42.48	-6.76	1.49	0.80	10.28	10.50	--
CACA	CHARDAN 2008 CHINA ACQUISITION C	NASDAQ	\$ 7.09	9.17	65.02	0.42	9.41	--	--	--	--	--	--
CAEI	CHINA ARCHITECTURAL ENGINEERING	NASDAQ	\$ 1.55	53.26	82.55	58.16	-36.99	-71.56	1.81	--	--	--	--
CAGM	CHINA GREEN MATERIAL TECHNOLOGIE	NASDAQ	\$ 1.18	18.71	22.08	-14.49	68.57	-21.33	--	--	--	--	--
CAST	CHINACAST EDUCATION CORP	NASDAQ	\$ 4.45	35.65	158.46	30.74	75.00	8.15	0.92	3.77	21.17	12.88	-2.7069778
CBAK	CHINA BAK BATTERY INC	NASDAQ	\$ 2.13	57.68	122.86	24.56	31.48	-42.74	0.74	0.49	-15.21	53.25	17.4848036
CEDU	CHINAEDU CORP (ADR)	NASDAQ	\$ 5.69	19.48	110.84	21.58	16.12	-18.71	--	2.39	-16.99	51.73	-11.267649
CFSG	CHINA FIRE & SECURITY GROUP INC	NASDAQ	\$ 11.01	27.59	303.77	40.08	61.67	29.53	3.24	4.40	12.51	11.38	0.48505219
CHBT	CHINA-BIOTICS INC	NASDAQ	\$ 9.10	17.08	155.43	7.06	-3.96	-10.78	3.16	3.03	10.83	10.83	-0.85
CHDX	CHINDEX INTERNATIONAL INC.	NASDAQ	\$ 8.19	14.61	119.66	64.79	3.02	-66.57	1.26	0.75	273.00	24.45	7.33469375
CHINA	CDC CORPORATION	NASDAQ	\$ 1.18	107.00	126.26	7.27	2.61	-65.80	0.59	0.31	7.38	10.73	0.0052758
CHIO	CHINA INSONLINE CORP	NASDAQ	\$ 1.08	40.00	43.20	125.00	-16.92	-75.45	2.75	--	--	--	--
CHLN	CHINA HOUSING & LAND DEVELOPMENT	NASDAQ	\$ 1.72	30.95	53.23	43.33	33.32	-61.69	0.65	2.01	5.73	9.92	--
CHNR	CHINA NATURAL RESOURCES INC	NASDAQ	\$ 9.37	19.62	183.84	5.28	-21.92	-56.01	2.22	--	--	--	--
CISG	CNINSURE INC (ADR)	NASDAQ	\$ 7.62	45.62	347.62	3.39	-13.31	-45.77	--	2.82	12.49	9.42	--
CLWT	EURO TECH HOLDINGS COMPANY LTD.	NASDAQ	\$ 0.99	11.86	11.74	45.61	13.81	-59.42	--	--	--	--	--
CMED	CHINA MEDICAL TECHNOLOGIES INC (ADR)	NASDAQ	\$ 19.54	32.11	627.43	41.90	-3.55	-47.75	--	4.99	9.05	10.38	1.45341934
CNTF	CHINA TECHFAITH WIRELESS (ADR)	NASDAQ	\$ 1.57	43.33	68.03	14.60	22.66	-71.25	--	--	8.26	34.89	--
COGO	COGO GROUP INC	NASDAQ	\$ 8.18	35.63	291.45	22.46	68.31	-37.17	1.45	1.02	11.36	12.43	8.64070436
CPBY	CHINA INFORMATION SECURITY TECHN	NASDAQ	\$ 3.00	48.8	146.40	-5.06	-16.67	-53.85	1.31	1.72	5.26	4.29	4.64
CPSL	CHINA PRECISION STEEL INC	NASDAQ	\$ 1.56	46.56	72.63	33.33	24.80	-57.84	0.60	0.81	6.50	22.29	3.3331361
CRGIY	CORGI INTERNATIONAL LTD (ADR)	NASDAQ	\$ 0.02	12.79	0.28	-52.98	-72.31	-97.83	Neg	--	--	--	--
CSKI	CHINA SKY ONE MEDICAL INC	NASDAQ	\$ 14.96	16.45	246.09	30.09	-6.44	36.00	2.51	2.68	8.27	6.80	--
CSIQ	CANADIAN SOLAR INC	NASDAQ	\$ 6.55	35.63	233.38	9.53	1.39	-76.07	0.55	0.33	32.75	--	--
CSUN	CHINA SUNERGY CO LTD (ADR)	NASDAQ	\$ 3.04	44.63	135.68	-0.33	-23.04	-63.02	--	0.39	-5.43	--	--
CTDC	CHINA TECHNOLOGY DEVELOPMENT GRO	NASDAQ	\$ 2.37	15.05	35.67	5.80	16.98	-47.80	2.89	--	--	--	--
CTEL	CITY TELECOM HK LTD (ADR)	NASDAQ	\$ 3.74	32.53	121.66	30.31	41.13	-17.07	0.90	--	--	--	--
CTFO	CHINA TRANSINFO TECHNOLOGY CORP	NASDAQ	\$ 3.50	22.19	77.67	22.81	14.75	-42.53	1.68	2.64	6.60	6.14	--
CTRP	CTRP.COM INTERNATIONAL LTD. (ADR)	NASDAQ	\$ 30.92	66.80	2065.46	12.85	29.92	-50.18	7.49	9.52	33.25	31.61	--
DSWL	DESWELL INDUSTRIES INC	NASDAQ	\$ 2.44	15.79	38.53	37.85	82.09	-62.11	0.33	--	--	--	--
EFUT	EFUTURE INFORMATION TECHNOLOGY I	NASDAQ	\$ 10.76	3.36	36.15	83.30	72.44	-35.18	1.27	--	--	--	--
FEED	AGFEED INDUSTRIES INC	NASDAQ	\$ 3.66	38.30	140.18	61.95	127.33	-78.06	1.25	0.98	5.15	8.93	0.03197112
FFHL	FUWEI FILMS HOLDINGS CO LTD	NASDAQ	\$ 1.55	13.06	20.24	101.34	113.81	-48.84	0.27	--	--	--	--
FMCN	FOCUS MEDIA HOLDING LTD (ADR)	NASDAQ	\$ 6.30	129.50	815.85	-7.35	-30.69	-82.92	--	1.07	3.71	5.38	-0.0892048



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FSIN	FUSHI COPPERWELD INC	NASDAQ	\$ 5.08	27.80	141.22	5.83	-3.61	-68.53	0.68	0.64	4.84	5.24	0.38618771
FUQI	FUQI INTERNATIONAL INC	NASDAQ	\$ 6.28	22.01	138.22	33.62	0.32	-23.88	0.83	0.38	4.76	4.35	-0.3876773
GAI	GLOBAL-TECH ADVANCED INNOVATIONS	NASDAQ	\$ 8.34	3.23	26.94	13.16	-25.87	-37.76	0.31	--	--	--	--
GRRF	CHINA GREENTECH CORP LTD (ADR)	NASDAQ	\$ 1.79	24.56	43.96	31.63	49.17	-62.08	--	0.31	-2.56	22.38	3.89622791
GSOL	GLOBAL SOURCES LTD.	NASDAQ	\$ 4.45	51.37	228.60	14.40	-10.18	-64.76	--	0.96	8.82	21.89	--
HEAT	SMARTHEAT INC	NASDAQ	\$ 5.70	24.18	137.83	-3.88	--	--	--	--	21.11	10.96	--
HIHO	HIGHWAY HOLDINGS LIMITED	NASDAQ	\$ 0.89	3.72	3.31	56.14	9.88	-55.50	0.26	--	--	--	--
HMIN	HOME INNS & HOTELS MANAGEMENT IN (ADR)	NASDAQ	\$ 13.78	35.71	492.08	39.61	60.61	-38.51	2.03	1.80	47.52	34.57	11.8410537
HOGS	ZHONGPIN INC	NASDAQ	\$ 8.73	25.57	223.23	-1.69	-27.25	-19.46	1.26	0.45	8.31	5.88	--
HRAY	HURRAY! HOLDING CO LTD (ADR)	NASDAQ	\$ 1.99	21.87	43.52	34.46	4.74	-28.16	--	0.81	-14.21	--	6.34802129
HRBN	HARBIN ELECTRIC INC	NASDAQ	\$ 7.98	22.10	176.36	29.76	-0.13	-49.97	1.05	1.46	6.71	6.23	3.82065718
HSWI	HSW INTERNATIONAL INC	NASDAQ	\$ 0.23	53.70	12.35	39.39	-39.47	-94.26	0.56	--	--	--	--
JADE	LJ INTERNATIONAL INC	NASDAQ	\$ 1.07	22.91	24.51	48.61	62.12	-59.00	0.35	0.18	8.92	7.48	1.54596427
JOBS	51JOB INC (ADR)	NASDAQ	\$ 8.00	28.19	225.52	15.94	29.87	-56.52	1.29	1.81	20.00	67.47	4.99324998
JRJC	CHINA FINANCE ONLINE CO LTD (ADR)	NASDAQ	\$ 11.73	21.95	257.47	33.90	66.86	-36.42	--	4.59	13.96	67.67	-3.8309434
JST	JINPAN INTERNATIONAL LTD	NASDAQ	\$ 19.67	8.20	161.29	16.74	35.56	-47.82	1.50	--	--	--	--
KNDI	KANDI TECHNOLOGIES CORP	NASDAQ	\$ 1.65	19.96	32.93	57.13	110.45	-68.51	1.86	--	--	--	--
KONG	KONGZHONG CORP (ADR)	NASDAQ	\$ 6.30	35.63	224.47	24.51	88.06	48.94	--	2.32	-10.68	45.00	75.794002
LONG	ELONG INC (ADR)	NASDAQ	\$ 6.30	25.30	159.39	3.62	-11.27	-32.76	1.14	1.44	-14.25	--	12.3879974
LTON	LINKTONE LTD (ADR)	NASDAQ	\$ 1.46	42.06	61.41	0.69	21.67	-32.09	--	--	--	--	--
MPEL	MELCO CROWN ENTERTAINMENT LTD (ADR)	NASDAQ	\$ 4.55	440.39	2003.77	38.72	43.53	-65.53	--	1.42	--	--	6.8424697
NCTY	THE9 LTD (ADR)	NASDAQ	\$ 9.32	26.82	249.96	-30.91	-30.03	-56.59	0.93	1.11	5.09	9.19	-0.5786773
NINE	NINETOWNS INTERNET TECHNOLOGY (ADR)	NASDAQ	\$ 1.05	35.79	37.58	0.96	20.69	-52.91	0.23	--	--	--	1.9960666
NOEC	NEW ORIENTAL ENERGY & CHEM CORP	NASDAQ	\$ 1.30	12.64	16.43	44.43	41.30	-73.90	0.98	--	--	--	--
NTES	NETEASE.COM (ADR)	NASDAQ	\$ 30.18	128.00	3863.04	12.40	36.56	35.22	7.58	8.26	16.77	14.90	9.96617433
PSOF	PANSOFT CO LTD	NASDAQ	\$ 3.04	5.44	16.54	36.93	13.01	--	3.22	--	--	--	--
PWRD	PERFECT WORLD CO LTD (ADR)	NASDAQ	\$ 18.16	56.51	1026.22	29.25	5.28	-36.77	3.16	4.94	11.49	8.83	8.00204778
SDTH	SHENGDATECH INC	NASDAQ	\$ 3.79	54.2	205.42	22.26	7.67	-52.15	2.05	1.37	6.32	11.60	--
SEED	ORIGIN AGRITECH LTD	NASDAQ	\$ 3.45	22.51	77.66	26.37	69.12	-45.92	1.99	--	--	--	--
SINA	SINA CORPORATION	NASDAQ	\$ 28.01	55.82	1563.52	20.47	20.99	-39.37	2.74	4.21	16.57	19.25	-3.4813349
SNDA	SHANDA INTERACTIVE ENTERTAINMENT (ADR)	NASDAQ	\$ 47.83	72.65	3474.85	21.00	47.81	39.49	--	6.39	18.98	15.20	-0.4241266
SNEN	SINOENERGY CORP	NASDAQ	\$ 1.26	15.94	20.08	0.81	-54.18	-75.29	0.35	0.42	1.31	--	--
SOHU	SOHU.COM INC	NASDAQ	\$ 52.15	38.12	1987.96	26.24	10.16	-24.56	11.62	4.63	12.91	11.99	17.3873981
SOLF	SOLARFUN POWER HOLDINGS CO LTD (ADR)	NASDAQ	\$ 4.29	48.39	207.59	2.39	-14.37	-68.06	--	0.32	-5.91	--	-22.055847
SORL	SORL AUTO PARTS INC	NASDAQ	\$ 3.35	18.28	61.24	86.11	110.59	-32.46	0.83	--	--	--	--
SPRD	SPREADTRUM COMMUNICATIONS INC (ADR)	NASDAQ	\$ 1.50	41.44	62.16	0.00	51.52	-82.78	--	0.45	-4.05	--	52.5378325
SSRX	3SBIO INC (ADR)	NASDAQ	\$ 7.08	21.51	152.29	4.58	-9.23	-32.25	1.10	4.31	27.23	13.55	6.564492
SUTR	SUTOR TECHNOLOGY GROUP LTD	NASDAQ	\$ 2.25	37.96	85.41	60.71	-2.60	-62.69	0.55	0.23	2.65	3.69	2.30330041
TSTC	TELESTONE TECHNOLOGIES CORP	NASDAQ	\$ 1.73	10.40	17.99	0.58	22.70	-62.88	0.34	--	--	--	--
VIMC	VIMICRO INTERNATIONAL CORP (ADR)	NASDAQ	\$ 1.82	35.29	64.23	2.82	-16.89	-46.31	--	--	-16.55	--	--
VISN	VISIONCHINA MEDIA INC (ADR)	NASDAQ	\$ 5.37	71.82	385.67	-16.74	-1.65	-63.59	1.85	--	8.14	7.92	--
WATG	WONDER AUTO TECHNOLOGY INC	NASDAQ	\$ 6.73	26.96	181.44	87.99	71.68	-11.56	1.50	--	9.48	8.84	--
WUHN	WUHAN GENERAL GROUP CHINA INC	NASDAQ	\$ 1.90	25.07	47.63	-21.16	-59.14	-78.89	0.40	0.50	7.88	--	--
XING	QIAO XING UNIVERSAL TELEPHONE IN	NASDAQ	\$ 1.71	30.95	52.92	39.02	-8.06	-73.11	0.12	--	--	--	--
YTEC	YUCHENG TECHNOLOGIES LTD	NASDAQ	\$ 7.14	17.58	125.52	12.09	-2.06	-52.72	1.65	--	9.39	8.60	--
	Group Average					25.06	20.95	-45.08	1.93	2.31	12.65	19.69	6.63
	Group Median					22.63	13.81	-50.18	1.26	1.43	8.27	11.38	3.58
CGA	CHINA GREEN AGRICULTURE INC	NYSE AMEX	\$ 4.95	18.60	92.07	47.76	59.68	-82.32	3.32	--	4.81	7.86	--



Ticker	Company Name	Exchange	Price (Prev Close)	Shares Outstanding (MM)	Market Capitalization (MM)	Price % Change 1 month to date	Price % Change Year to date	52 Week Price Change (%)	P/B Ratio LFY	Price/Sales TTM	P/E Ratio TTM	Forward P/E Ratio	EV/EBITDA TTM
GSI	GENERAL STEEL HOLDINGS INC	NYSE AMEX	\$ 5.82	36.28	211.15	121.29	47.72	-47.94	2.58	0.16	-6.85	64.67	9.43
HPJ	HONG KONG HIGHPOWER TECHNOLOGY I	NYSE AMEX	\$ 2.24	13.56	30.37	-14.18	-29.78	--	3.89	--	--	--	--
KUN	CHINA SHENGHUO PHARMACEUTICAL HO	NYSE AMEX	\$ 0.83	19.68	16.33	124.32	107.50	-76.75	1.04	--	--	--	--
MHJ	MAN SANG HOLDINGS INC	NYSE AMEX	\$ 2.21	6.38	14.10	20.10	53.47	-68.70	--	--	--	--	--
NWD	NEW DRAGON ASIA CORPORATION	NYSE AMEX	\$ 0.16	64.15	10.26	-19.96	-38.46	-78.95	0.15	0.21	-2.67	2.03	
ORS	ORSUS XELENT TECHNOLOGIES INC	NYSE AMEX	\$ 0.47	29.76	13.99	30.56	34.29	-83.62	0.33	--	--	--	--
SHZ	CHINA SHEN ZHOU MINING & RESOURC	NYSE AMEX	\$ 0.51	22.21	11.33	10.87	70.00	-87.94	--	--	--	--	--
SVA	SINOVAC BIOTECH LTD	NYSE AMEX	\$ 2.67	42.89	114.52	82.88	93.48	-30.65	2.47	--	--	--	--
TBV	TIENS BIOTECH GROUP USA INC	NYSE AMEX	\$ 2.10	71.33	149.79	13.51	7.14	8.25	0.89	--	--	--	--
TPI	TIANYIN PHARMACEUTICAL CO INC	NYSE AMEX	\$ 1.76	16.06	28.19	27.17	34.99	-36.18	0.80	--	--	--	--
	Group Average					40.39	40.00	-58.48	1.72	0.18	-1.57	24.85	9.43
	Group Median					27.17	47.72	-72.72	1.04	0.18	-2.67	7.86	9.43
ALRC	AMERICAN LORAIN CORP	OTCBB	\$ 1.12	25.18	28.20	27.27	4.67	-92.53	0.47	0.21	1.92	--	--
CBPO	CHINA BIOLOGIC PRODUCTS INC	OTC BB	\$ 3.70	21.44	79.33	51.02	85.00	9.14	2.30	1.70	6.61	--	3.56
CCGY	CHINA CLEAN ENERGY INC	OTC BB	\$ 0.22	31.51	6.93	35.38	22.22	-81.36	0.24	0.38	11.51	--	--
CHME	CHINA MEDICINE CORP	OTC BB	\$ 1.78	15.23	27.11	44.72	147.22	-35.51	0.63	0.51	3.01	--	--
CNER	CHINA NEW ENERGY GROUP CO	OTC BB	\$ 0.50	100.00	50.00	-50.00	25.00	--	2.29	6.67	50.00	--	9.82
CNGL	CHINA NUTRIFRUIT GROUP LTD	OTC BB	\$ 2.85	36.13	102.97	-16.18	--	--	--	--	--	--	--
CVVT	CHINA VALVES TECHNOLOGY INC	OTC BB	\$ 1.45	62.39	90.47	-63.75	-71.00	-71.00	1.18	1.37		3.82	--
CWSI	CHINA WIND SYSTEMS INC	OTC BB	\$ 0.47	44.90	21.10	-6.00	-14.55	-76.50	0.64	0.50	5.20	--	2.70
CXDC	CHINA XD PLASTICS CO LTD	OTC BB	\$ 4.25	0.81	3.42	6.25	242.47	71.23	0.14	0.05	0.12	--	--
DGNG	DIGUANG INTERNATIONAL DEVELOPMEN	OTC BB	\$ 0.28	22.07	6.18	0.00	359.02	-77.60	0.25	0.11	--	--	--
GFRE	GULF RESOURCES INC	OTC BB	\$ 0.48	122.17	58.64	0.00	60.00	-69.03	0.91	0.64	2.14	--	1.58
GHII	GOLD HORSE INTERNATIONAL INC	OTC BB	\$ 0.08	52.67	3.95	25.00	-11.00	-90.00	0.15	0.03	0.57	--	0.85
GNPH	GENESIS PHARMACEUTICALS ENTERPRI	OTC BB	\$ 6.95	10.35	71.93	59.77	85.33	-47.35	0.56	0.62	5.84	9.39	--
IAQG	INTERAMERICAN ACQUISITION GROUP	OTC BB	\$ 7.56	7.00	52.92	4.28	2.86	2.86	1.54	66.78	--	--	--
LTUS	LOTUS PHARMACEUTICALS INC	OTC BB	\$ 0.30	43.38	13.01	1.69	49.93	-69.70	0.30	0.18	1.13	--	--
PUDC	PUDA COAL INC	OTC BB	\$ 0.27	107.34	28.45	-1.85	39.47	-49.52	0.42	0.12	1.70	--	--
RHGP	RENHUANG PHARMACEUTICAL INC	OTC BB	\$ 0.36	35.10	12.46	0.00	69.05	-58.24	--	--	--	--	--
SKII	SHENGKAI INNOVATIONS INC	OTC BB	\$ 2.00	30.00	60.00	-4.76	-16.32	300.00	1.84	1.69	5.23	--	1.80
UTVL	UNIVERSAL TRAVEL GROUP	OTC BB	\$ 5.10	13.87	70.74	473.03	93.18	-2.30	1.60	0.92	4.67	4.10	2.87
YGYB	YONGYE BIOTECHNOLOGY INTL INC	OTC BB	\$ 1.65	26.76	44.15	10.00	3.13	--	--	--	2.62	3.17	--
YUII	YUHE INTERNATIONAL INC	OTC BB	\$ 3.20	15.72	50.30	60.00	-20.00	540.00	--	--	4.64	4.16	--
	Group Average*					27.23	34.13	-48.14	25.36	4.04	6.68	5.34	2.91
	Group Median					0.00	3.13	-72.34	0.64	0.50	4.67	4.28	2.53

Prices as of 4/30/2009

*Based on CCG's entire OTC BB universe; OTC BB companies displayed represent a partial list





100 Flowers Blooming

Picking a Bouquet of Stocks as Spring Comes to China

By Crocker Coulson

Continued from page 2

Top 10 companies ranked by price change year to date

	Ticker	Company Name	Exchange	Price (Prev Close)	Market Cap (MM)	Price % Change Year to date	52 Week Price Change(%)
1	FEED	AGFEED INDUSTRIES INC	NASDAQ	\$ 3.66	140.18	127.33	-78.06
2	CMM	CHINA MASS MEDIA INTERNATIONAL A (ADR)	NYSE	\$ 3.11	74.31	119.71	--
3	FFHL	FUWEI FILMS HOLDINGS CO LTD	NASDAQ	\$ 1.55	20.24	113.81	-48.84
4	SORL	SORL AUTO PARTS INC	NASDAQ	\$ 3.35	61.24	110.59	-32.46
5	KNDI	KANDI TECHNOLOGIES CORP	NASDAQ	\$ 1.65	32.93	110.45	-68.51
6	KUN	CHINA SHENGHUO PHARMACEUTICAL HO	AMEX	\$ 0.83	16.33	107.50	-76.75
7	BNSO	BONSO ELECTRONIC INTERNATIONAL I	NASDAQ	\$ 1.29	7.22	105.35	-40.61
8	SVA	SINOVAC BIOTECH LTD	AMEX	\$ 2.67	114.52	93.48	-30.65
9	XIN	XINYUAN REAL ESTATE CO LTD (ADR)	NYSE	\$ 4.72	356.41	93.44	-47.73
10	APWR	A-POWER ENERGY GENERATION SYSTEM	NASDAQ	\$ 8.25	276.54	91.86	-47.78

Bottom 10 companies ranked by price change year to date

	Ticker	Company Name	Exchange	Price (Prev Close)	Market Cap (MM)	Price % Change Year to date	52 Week Price Change(%)
1	WUHN	WUHAN GENERAL GROUP CHINA INC	NASDAQ	\$ 1.88	47.13	-59.57	-77.21
2	SNEN	SINOENERGY CORP	NASDAQ	\$ 1.28	20.40	-53.46	-75.57
3	LDK	LDK SOLAR CO LTD (ADR)	NYSE	\$ 8.00	904.88	-39.02	-74.80
4	NWD	NEW DRAGON ASIA CORPORATION	AMEX	\$ 0.16	10.26	-38.46	-78.95
5	AOB	AMERICAN ORIENTAL BIOENGINEERING	NYSE	\$ 4.24	331.78	-37.56	-55.93
6	CAEI	CHINA ARCHITECTURAL ENGINEERING	NASDAQ	\$ 1.55	82.55	-36.99	-71.56
7	FMCN	FOCUS MEDIA HOLDING LTD (ADR)	NASDAQ	\$ 6.30	815.85	-30.69	-82.92
8	NCTY	THE9 LTD (ADR)	NASDAQ	\$ 9.32	249.96	-30.03	-56.59
9	HPJ	HONG KONG HIGHPOWER TECHNOLOGY I	AMEX	\$ 2.24	30.37	-29.78	--
10	WX	WUXI PHARMATECH CAYMAN INC (ADR)	NYSE	\$ 5.77	381.80	-27.78	-68.71

Looking at the leaders and losers for the past 52 weeks suggests that fundamentals do play a more determining role in stock performance with the passage of time. The strongest performers, including Shanda Interactive (NASDAQ:SNDA), AsiaInfo (NASDAQ:ASIA), and China Sky One (NASDAQ:CSKI) have shown steady earnings growth and strong operating cash flows over a series of quarters, resulting in positive returns both over the short and longer term. The top decliners feature a number of companies that once sported rich valuations but have subsequently disappointed market expectations with a series of weak earnings reports. This includes the once seemingly unstoppable purveyor of elevator ads Focus Media (NASDAQ:FMCN), 3G-communications chip provider Spreadtrum (NASDAQ:SPRD), and biodiesel behemoth Gushan (NYSE:GU) – all off over 80 percent from where they traded a year ago.



Top 10 companies ranked by 52-week price change

	Ticker	Company Name	Exchange	Price (Prev Close)	Market Cap (MM)	Price % Change Year to date	52 Week Price Change(%)
1	KONG	KONGZHONG CORP (ADR)	NASDAQ	\$ 6.30	224.47	88.06	48.94
2	SNDA	SHANDA INTERACTIVE ENTERTAINMENT (ADR)	NASDAQ	\$ 47.83	3474.85	47.81	39.49
3	ADY	AMERICAN DAIRY INC	NYSE	\$ 16.02	276.35	6.52	38.10
4	ASIA	ASIAINFO HOLDINGS INC	NASDAQ	\$ 16.75	728.46	41.47	37.63
5	NTES	NETEASE.COM (ADR)	NASDAQ	\$ 30.18	3863.04	36.56	35.22
6	CFSG	CHINA FIRE & SECURITY GROUP INC	NASDAQ	\$ 11.01	303.77	61.67	29.53
7	CSKI	CHINA SKY ONE MEDICAL INC	NASDAQ	\$ 14.11	232.11	-11.76	28.27
8	LFT	LONGTOP FINANCIAL TECHNOLOGIES L (ADR)	NYSE	\$ 23.66	1198.85	56.48	18.60
9	TBV	TIENS BIOTECH GROUP USA INC	AMEX	\$ 2.10	149.79	7.14	8.25
10	CAST	CHINACAST EDUCATION CORP	NASDAQ	\$ 4.45	158.46	75.00	8.15

Bottom 10 companies ranked by 52-week price change

	Ticker	Company Name	Exchange	Price (Prev Close)	Market Cap (MM)	Price % Change Year to date	52 Week Price Change(%)
1	SHZ	CHINA SHEN ZHOU MINING & RESOURC	AMEX	\$ 0.51	11.33	70.00	-87.94
2	ORS	ORSUS XELENT TECHNOLOGIES INC	AMEX	\$ 0.47	13.99	34.29	-83.62
3	FMCN	FOCUS MEDIA HOLDING LTD (ADR)	NASDAQ	\$ 6.30	815.85	-30.69	-82.92
4	SPRD	SPREADTRUM COMMUNICATIONS INC (ADR)	NASDAQ	\$ 1.50	62.16	51.52	-82.78
5	CGA	CHINA GREEN AGRICULTURE INC	AMEX	\$ 4.95	92.07	59.68	-82.32
6	GU	GUSHAN ENVIRONMENTAL ENERGY LTD (ADR)	NYSE	\$ 2.41	201.04	30.98	-80.72
7	SOL	RENESOLA LTD (ADR)	NYSE	\$ 3.47	235.37	-21.32	-79.28
8	NWD	NEW DRAGON ASIA CORPORATION	AMEX	\$ 0.16	10.26	-38.46	-78.95
9	HTX	HUTCHISON TELECOMMUNICATIONS INT (ADR)	NYSE	\$ 4.46	1431.48	10.12	-78.81
10	FEED	AGFEED INDUSTRIES INC	NASDAQ	\$ 3.66	140.18	127.33	-78.06

A Long, Hot Summer for Chinese Stocks

Despite the gains of the past two months, there are a number of reasons to believe that enormous opportunities remain for investors with the persistence to carefully research and select the most promising growth stories from China.

First, Chinese companies are operating in a macro-economic environment that is likely to be substantially more conducive to growth than their U.S. counterparts over the next five years. While China's base-line GDP growth is likely to moderate over time from the double-digit rates experienced in recent years, the fundamentals supporting that growth are likely to be more sustainable. The global recession has moderated upward pressure on labor and commodities, taken the air out of a looming property bubble, and refocused Chinese management on capital allocation and expense

control. The Chinese government is now deeply committed to stimulating domestic consumption, bolstering rural incomes, and weaning its manufacturing sector off a dependence on the debt-soused American consumer. New plans for healthcare and education reform should help to scale back the Chinese consumers' excessive savings rate and redress some of the income inequality that has built up during the export- and urban-focused phase of China's recent economic development.



Second, China's economy continues to contain significant inefficiencies on a micro-economic level that create enormous opportunities for well-run and ambitious listed companies. As an example, many industries have significant structural barriers to entry that enable well-positioned and efficient companies to earn significantly higher profit margins and returns on capital than one would expect in a developed economy. A combination of licensing requirements, local distribution practices and government support through infrastructure, land grants and tax breaks can effectively prevent foreign players from competing away these profits and allow companies to build scale advantages in a relatively short period of time. In addition, Chinese entrepreneurs are often presented with opportunities to make acquisitions under very attractive terms that would never be available in more developed markets with open auctions and widely shared information on asset markets. In fact, most acquisitions are negotiated in China on the basis of net asset value – which may have little or no bearing on the value of a target's earnings power or projected cash flows. While larger companies and SOEs currently have greater latitude to take on bank debt, smaller private companies have extremely limited access to equity capital or long-term debt – creating an acute capital shortage that should result in abundant consolidation opportunities for companies that can access the overseas financing market. For all these reasons, it is likely that the strong will get stronger and the corporate landscape of China Inc. will undergo meaningful consolidation over the next few years.

Third, valuations remain extremely undemanding, particularly for the less liquid and less well-known Chinese growth stories. In January and February of 2009 one could find dozens of stocks with reasonably good growth prospects and solid margins trading at 1-3X earnings. Even after the recent rally, many names that are likely to grow their earnings at 30 percent or better for the next several years are trading at PEs in the low single digits. These U.S.-listed Chinese stocks are trading PEG (price-earnings-to-growth) ratios far below what U.S. companies with comparable performance would fetch (assuming that such companies could be found) and massive discounts to comparables on the Shanghai and Shenzhen stock exchanges – despite offering generally better growth rates, higher quality accounting and higher margins than the A-share names.

Finally, U.S. investors remain irrationally under-exposed to Chinese equities. According to data released by the Federal Reserve, in 2008 China ranked number 13 in the world in holdings of foreign equities by U.S. investors – well behind such economic flyspecks as the Netherlands (#7), Australia (#8), and Spain (#11). U.S. investors held only \$96 billion in Chinese equities, as compared to \$734 billion of U.K. equities. Unless one believes that the English and the Dutch are destined to be the dominant economic powers of the 21st century, this allocation makes no sense. At some point American retail and institutional investors will wish to increase their stake in the fastest growing major economy in the world, which will presumably drive up the price for these shares.

2009 NIRI JUNE 7-10 WESTIN DIPLOMAT, SOUTH FLORIDA ANNUAL CONFERENCE

CHINA COMES TO NIRI!

The NIRI 2009 Annual Conference, June 7-10 Westin Diplomat, South Florida

Co-organized by the National Investor Relations Institute (NIRI) and CCG Investor Relations

Every IR Officer and Chief Financial Officer should attend the **NIRI 2009 Annual Conference**, where you will learn best practices in effective investor communications for today's turbulent global capital markets.

In 2009, NIRI and CCG Investor Relations are organizing **China Comes to NIRI!** - a special delegation and event customized to the needs and the interests of Chinese companies listed on the U.S. stock markets and other global markets.

The **National Investor Relations Institute** is the world's largest professional organization for IR officers and IR professionals. At NIRI's annual conference you will learn from the best practices established by the largest and best respected companies across the globe.

The event will include:

- A special workshop on IR Best Practices for U.S.-listed Chinese companies
- Insight on what it takes to win investor confidence and build a premium valuation
- Latest updates on SEC disclosure requirements
- How to leverage advanced information technology
- Planning session on future NIRI events in China and cooperation on future China IR professional association

Please join us at this historic event at such a critical juncture in the global capital markets – the world of Chinese investor relations will never be the same!



There is no question that investing in Chinese companies entails very significant risks, largely relating to the different business culture in China and corresponding lack of investor confidence in the completeness, accuracy and timeliness of financial and business information. Gradually, Chinese management teams are beginning

to realize that greater transparency and consistency will translate to higher equity valuations. But this remains very much a “work in progress” and investors are exposed to substantial information asymmetries and frequent surprises.

Brilliant Flowers and Poisonous Weeds

So what should investors look for when sorting out the brilliant flowers from the poisonous weeds in the bright and blooming field of Chinese equities?

- **Favorable Industry Positioning** – For the past several quarters, export-oriented manufacturers in Southern China have suffered from anemic demand, high cost pressures, collapsing margins, and customer credit woes. On the other hand, domestically focused business such as consumer staples, pharmaceuticals, and retailing have continued to experience brisk demand combined with lower raw materials costs, translating to growing profits and cash flows. Given how fast the macro-economic forces can shift, investors want to make sure that they are investing in sectors that are currently in favor. Just as importantly, investors want to make sure that they are investing in companies that have a meaningful source of competitive advantages within their industry, so that they can emerge on top in what is likely to be a “winner-take-all” consolidation phase in many corporate sectors.
- **Aligned with Government Priorities** – Since the Obama administration came to power, U.S. investors have gained a new respect for the role of government in driving investment returns. China remains a hybrid system of free enterprise grafted onto a command-and-control economy, meaning that government policy is often a decisive factor in which businesses will thrive and which will shrivel and die. As discussed later in this issue, China’s recent health care reform program is likely to dramatically expand the addressable market for the pharmaceutical industry while squeezing the profits of many distributors. As a rule, investors should avoid allocating capital to any business that is not favorably aligned with the stated policy objectives of the Chinese government. On the other hand, it can be very dangerous to invest in businesses that depend upon some special government franchise or “relationship” with officials – since that privileged position can be vaporized if the government sponsor loses power or is transferred to a new post. Beware of any CEO who overplays the contribution of “guangxi” to business success, as his cronies may fall victim to the next anticorruption campaign.
- **Committed to Public Company Excellence** – Over the past several years investors have learned that it is quite possible to have a fast-growing, profitable Chinese company that delivers miserable returns to its shareholders. Most often this is because the management does something ill-advised or injurious to the minority shareholders, such as executing complex and dilutive financings, transferring related-party assets at unfavorable terms, or making low-return investments or acquisitions that destroy shareholder value. In other words, investors have learned that it is not enough to invest in a good business; one must also buy companies that wish to be great public companies. Some of the markers of commitment to public company excellence include recruiting independent directors with substantial experience with U.S. public companies, hiring a well-qualified CFO, and engaging a well-respected audit firm.
- **Management Is Decisive** – It is hardly an overstatement to say that the three most important factors in investing in Chinese companies are management, management and management. One of the great positives of investing in Chinese companies is that the CEO is often a very large, if not majority, shareholder – reducing the issue of “agency costs” in which professional managers can appropriate shareholder returns through excessive compensation and ill-advised risks. However, investors also must realize that the success or failure of most Chinese companies is more tied to the judgment of the chairperson and CEO than would ever be the case for most U.S. companies. The CEO is the “big boss” whose personality imprints the company and often is accustomed to making strategic decisions with minimal formal processes or checks and balances. One of the greatest challenges for Chinese companies that list overseas is to adapt to international norms of governance and decision making without losing the entrepreneurial fire and flexibility that enabled them to rise to the top of their industry. It can be an incredibly painful transformation for a Chinese CEO to embrace new norms and adapt his corporate culture to global standards. But those who successfully complete it have a very real shot at building the next generation of world-beating companies.



China Rising Interview

Healthy Profits Ahead: Katherine Lu of Oppenheimer on Picking Winners in China's Healthcare Sector

Continued from page 3

its launch. Even three years after the patent expired on NORVASC, it remains Pfizer's top-selling drug in China.

Crocker: Can you give us a little bit of background on the role of the Chinese State Food and Drug Administration (SFDA)? How does their approval process parallel or differ from that of the U.S. FDA? How can investors judge if a drug is likely to make it through the approval process?

Katherine: The SFDA runs a process very similar to the FDA on the drug approval side. Companies need to conduct clinical trials in order to submit an application and get approval. The clinical research development is also divided into four phases. But the requirement on the clinical trial is on a much smaller scale as compared to the FDA approval process. I think the chance for a drug to get approved by the SFDA is higher, for two reasons. First, the Chinese market is largely a generic market, and generic drugs have less approval risk than new, proprietary products. Second, the domestic regulatory approval standard is less stringent than the FDA approval standard.

Crocker: In July 2007, SFDA Chief Zheng Xiaoyu was executed after a major scandal involving the approval of drugs that proved to be toxic. How much has the approval process changed in the last two years? In your experience, has the SFDA been able to get drugs moving through the pipeline again?

Katherine: The SFDA experienced a drastic change following Zheng Xiaoyu's execution. They significantly stepped up their approval criteria. In the 12 months following his execution, there were very few products approved – almost none. But beginning in early 2008, things started to speed up. The SFDA cleared the significant backlog of pending approvals by the end of the year. By our estimate, right now, the generic review and approval cycle is about 23 months – with some first-to-market generics, it's about 15 months.

This year I think the government is going to place an emphasis on innovation, so it will speed up the approval process on innovative products and first-to-market generics. In China, first-to-market generics are also regarded as innovative products. But for those high-risk products, such as injectable traditional Chinese medicine or narcotic drugs, the government has made the approval criteria more stringent. They will try to conduct reinspection even for some approved products.

Crocker: You mentioned that in China, generics play a much bigger role in the pharmaceuticals market. What kind of share do generics have?

What do you see is the future of developing proprietary or new drugs in China, and what role do their universities play in that process?

Katherine: I think the generic market probably accounts for 80 to 90 percent of China's total pharmaceuticals market. The government definitely tries to push for innovation. On the one hand, China needs to improve the intellectual property environment in order to attract larger international players, to encourage them to introduce their innovative products in China. These days we're seeing global pharmaceutical companies increase spending in China's research and development. They either set up their own proprietary R&D lab in China, or they use the Chinese CRO to play into their global R&D strategy to lower the cost. Of course, local colleges also generate some R&D projects, but at this point I think that's more for the domestic pharmaceutical players.

Crocker: Increased government spending is a major theme, and I know there has been a lot of talk about China expanding their healthcare insurance schemes. How does healthcare insurance work in China, and what's the coverage like today?

Katherine: The government is trying to use healthcare reform to significantly expand the coverage nationwide. Essentially, China wants to establish 90 percent medical coverage for the nation by 2011. This is a very ambitious goal. Currently, there are three different insurance policies that China uses. One is called the urban employment policy, another is called the urban residence policy, and the third is called the rural cooperative policy. In the current rural cooperative policy, the per-capita coverage is about RMB 80 (approximately \$11.72) per year. This is a very small number. But multiplied by a population of 1.3 billion, it's a significant amount for the central government. So the government is trying to boost the per capita reimbursement rate to RMB 120 by 2010. This year, they want to boost it to RMB 100.

Crocker: How should investors think about playing that trend?

Katherine: I think the direct benefit from this would be first to the pharmaceuticals market as a sector. A substantial amount of the reimbursement will be toward drug reimbursement. So the pharmaceuticals sector will benefit. Also, some domestic hospitals will benefit, because insurance will be used to pay for clinical visits and service fees.

Crocker: Speaking of hospitals, I know that China's government is also putting a lot of energy into cleaning up the drug distribution business in China. How much bribery is involved in moving these products into hospitals right now?

Katherine: Historically, distributors charge a substantial markup, and that could vary sometimes from 10 to 15 percent. The Chinese government wants to cut that markup down to 5 percent or even less. This is another way the government is trying to get drug expenditure under control, because they can lower drug costs by the streamlining the distribution channel.

Crocker: I know that in China there's a very fragmented pharmaceuticals industry – I believe there are thousands of different pharmaceutical companies. How do you expect the consolidation of this industry to play out over the next several years?

Katherine: Two trends will probably evolve. Some pharmaceutical companies will focus on low-margin but high-volume essential drugs, and become huge generic players. Another group will probably develop into those innovative players with a strong scale, so they can leverage their high margin with just a reasonable volume. Currently, there are 3,000 to 4,000 players in the market. I think consolidation is inevitable in the next two to three years.

Crocker: One thing that a lot of U.S. investors have trouble understanding is traditional Chinese medicine, or TCM. How big a market share does TCM have today?

Katherine: Traditional Chinese medicine actually plays a big role in China's pharmaceuticals market. Right now, roughly 35 percent of China's market actually belongs to traditional Chinese medicine. TCM is a homegrown business, so the Chinese government wants to help to develop this industry. The drug pricing for TCM actually remains quite stable. Interestingly, TCM's consumer price index (CPI) is among the highest in the healthcare industry. It trended roughly 3 percent year-to-date so far, versus the CPIs of Western drug companies or medical device companies, which are relatively flat from last year.

Crocker: How rigorously do they have to demonstrate the efficacy of these TCM drugs?

Katherine: The SFDA tried to improve the regulatory process to be in line with the Western drug approval process. But honestly, TCM is based on perceived efficacy. Now these TCM companies need to conduct clinical trials to show the efficacy and safety of those products, but the standard is less stringent than the Western drug approval standard. I don't see the Chinese government pulling substantial numbers of TCM drugs from the market due to efficacy but only for those specific products which carry serious safety issues. For some cardiovascular diseases, the top-selling drugs in China are still TCMs, believe it or not.

Crocker: Can you give us a little bit of background on the medical device industry in China? What kind of growth rates do you see in that industry? How significant a role do domestic players have versus multinationals?

Katherine: The medical device market in China is about 2/3 the size of China's pharmaceuticals market, or about \$28 billion in 2008. But

it is growing at a very respectable rate, about 30 to 50 percent on a year-over-year basis in the past 12 to 24 months. Government spending is also going to be a key factor to drive industry growth in the next few years. Recently, central government allocated first batch of RMB 10 billion to improve hospital standards, and we imagine part of that will go to the medical device industry.

Purchases in the medical device industry will come from two different sources. One is through government tender; the government buys medical equipment and distributes it to rural hospitals or to the facilities they think should improve. Generally, government tender carries a lower price. In terms of global players versus domestic players, I think global players actually have a substantially higher market share in the high-end instruments right now. But they also carry a substantial market share in the low-end instrument, for example, the patient monitoring system. I think China's device market will become a hot investment area for global players.

In terms of pricing for medical devices, the government wants to control the pricing for those high-end implantable devices. In China, this is also a substantial payment from the government.

Crocker: In this industry, do you see any made-in-China innovation, or are the local players essentially offering lower-priced copycat products of the Western multinationals?

Katherine: At this moment, I think it is more of a copycat market in China for domestic players. But even in the United States, I would say that the product differentiation among manufacturers on the medical device side is much less than on the drug side. I think the intellectual property component is a little bit less in the device area. Definitely domestic device players' competitive edge is to provide similar products at a much lower cost. They try to collaborate with international players to save the cost on the design of the equipment to cater both to domestic demand and international demand.

Crocker: If someone takes the same methods of analysis that they've developed in the U.S. or European market, what are the big mistakes they're going to make when they try to pick stocks in China?

Katherine: The Chinese pharmaceuticals market is essentially a generic market. Investors should avoid using the innovative model to evaluate a company. I think near-term execution will remain the major valuation driver. It's the same on the device side. I think, in terms of key investment criteria, I would evaluate companies on their earnings. Are they targeting a substantially large market, a growing market? If a market is not growing, I wouldn't be interested in investing in such a company. Investing in China carries such substantial information asymmetries, so there's substantial risk. If the investor cannot be compensated by the high growth rate, there's no reason to invest in such a company.

Second, because of this information asymmetry, sometimes it's hard to do more detailed due diligence like an investor can do in the U.S. market. I would recommend looking at the track record of the company, which is very important. Find out if the company has had a series of guidance revisions or EPS surprises in the past 12 to 18 months.



Third, I think management is very important. At companies in an emerging market, management usually has a higher share of holding in the company. Our investment thesis on China's healthcare market is driven by the value and the growth.

Crocker: Based on those factors, can you give us your top picks right now in the pharmaceuticals sector, the TCM sector, and the medical device sector?

Katherine: On the pharmaceuticals sector, our top pick right now is 3SBio Inc. (NasdaqGS: SSRX); it is a company focused on biogenerics. The reason we like the stock is because the valuation is still very attractive. The stock closed at roughly \$7 but has a per-share cash value of \$5. It is trading at just 4x expected earnings, which we believe is very attractive. The company is expected to grow their top line at over 20 percent in the next three years. Their operating leverage is limited, but nevertheless we think it is an undervalued story.

On the TCM front, we like American Oriental Bioengineering (NYSE: AOB). The reason we like the story is because the company has a solid track record of meeting its guidance and beating street consensus. The company is trading at 5.8x expected earnings. The company focuses on the rural market, which we think will substantially benefit from China's healthcare reform. We do see some near-term volatility for the healthcare sector overall in 2009 because there are still some details in this healthcare reform that are going to play out. But we believe the long-term growth outlook will be very positive.

On the device side, we only cover Mindray Medical International (NYSE:MR) right now. We think Mindray has a very robust domestic business. Their domestic business is targeting those low-end medical instruments – patient monitoring systems or biochemistry analyzers – and we think those products will benefit from the government's increased spending. But there are some risks involved in that story, especially on the international side, because we right

now we expect over 50 percent of Mindray's top line to come from international sales and we would expect foreign exchange could pose an additional risk. Further deteriorated hospital spending trends may drag down their international growth in the next 12 to 18 months. The valuation is on par with its peers.

Crocker: Are there any stocks you would advise investors to take a pass on right now, in your universe?

Katherine: I would think investors should take a pass or take a profit on Tongjitang Chinese Medicine (NYSE: TCM), a traditional Chinese medicine company. There's some risk related to this company. The Company tried to go private last year, but the deal didn't go through. Their underlying business has been deteriorating for four consecutive quarters. Ever since we downgraded the stock in 2007, it just seems that the top line continues to deteriorate. First of all, Tongjitang is a one-product company and it has had integration issues with acquisitions during the past 12 to 24 months. Second, its valuation has run up substantially.

Crocker: Last question: If you were to fall ill – which I hope never happens – would you seek medical treatment in the United States, China, India or somewhere else?

Katherine: It depends on where I am at the time. Overall, the United States definitely offers best-in-class medical treatment. If I run into a life-threatening disease like cancer or cardiovascular disease, just because of the variety of choices of those innovative products, the United States really offers the best standard of care. But if I get sick with some common cold, I wouldn't mind being treated even with traditional Chinese medicine. I've never been to India, but I've heard from my co-workers that India has been developing very well on the generic side.

Crocker: Thank you very much, Katherine. This has been very illuminating.

Healthcare Companies Poised To Benefit From Chinese Government Spending

3SBio Inc. NASDAQ: (SSRX \$7.07 – 4/29/09)

52-Week Range	\$4.18 - \$11.45	Revenues (ttm)	\$35.7M
Shares Outstanding	21.5M	Net Income (ttm)	\$11.0M
Market Capitalization	\$152.0M	Fiscal Year End	December

3SBio is a fast-growing manufacturer of generic biopharmaceuticals that operates in niche therapeutic areas where it has built leading market positions in the industry. EPIAO, a drug that treats anemia caused by kidney failure, commands 41% of the erythropoietin market in China and generates nearly 60% of the company's annual sales. Perhaps even more impressive is that TPIAO, a drug to treat platelet deficiency, garners 100% share of the thrombocytopenia market in China. TPIAO accounts for roughly 30% of 3SBio's sales.

The company enjoys a reduced tax rate of 15% since the government granted it "High Tech" status for innovative therapeutics. In addition, 3SBio may benefit from the government's \$124 billion medical reform plan through increased drug reimbursement programs. Over the next two years, potential new catalysts include approvals for high dose EPIAO (2009) and TPAIO extension for ITP (2010). SSRX trades at approximately \$7 per share despite holding roughly \$5 per share in cash and no long-term debt.


American Oriental Bioengineering Inc. NYSE: (AOB \$4.41 – 4/29/09)

52-Week Range	\$3.29 - \$12.28	Revenues (ttm)	\$264.6M
Shares Outstanding	78.3M	Net Income (ttm)	\$47.8M
Market Capitalization	\$345.1M	Fiscal Year End	December

American Oriental Bioengineering has developed market-leading positions in prescription and over-the-counter women's health, anti-viral and respiratory therapeutics products. In 2008, revenues grew by 65% to \$265 million. AOB has been an acquisition machine acquiring five TCM companies in the past two years. AOB hopes to benefit from achieving stronger integration and value-creation

from these acquisitions and recently approved a \$45 million share buyback program. The company puzzled some investors when it paid \$70 million to acquire a major office complex in Beijing, which includes a clubhouse and a swimming pool. AOB shares trade at less than 6x the \$0.78 consensus 2009 EPS estimate.

China Biologic Products, Inc. OTCBB: (CBPO \$3.70 – 4/29/09)

52-Week Range	\$1.05 - \$5.50	Revenues (ttm)	\$46.8M
Shares Outstanding	21.6M	Net Income (ttm)	\$12.0M
Market Capitalization	\$79.9M	Fiscal Year End	December

China Biologic Products reported record 2008 results driven by the strong demand for plasma-based pharmaceutical products and the constricted supply in China. Revenues increased 44% to \$47 million, net income was up roughly 47% to \$12 million and EPS jumped to \$0.56 from \$0.37 per share. Two recent acquisitions have transformed CBPO into the largest, fully integrated, non-state-owned plasma-based biopharmaceutical company approved by the Chinese government. Government mandates have created significant barriers to new entry and a favorable industry structure by

reforming blood collection stations, instituting new GMP certification requirements for collection stations, limiting the allowance of new collection stations, placing stricter inspection standards on GMP certifications for all plasma-based manufacturers, and restricting imports. The management recently issued 2009 guidance for revenues to be in the range of \$90 million to \$100 million and net income to be between \$18 million to \$22 million, excluding stock-based compensation, which would equate to \$0.83 to \$1.02 per share given the current share count of 21.6 million shares.

China-Biotics, Inc. NASDAQ: (CHBT \$9.10 – 4/29/09)

52-Week Range	\$5.42-\$13.48	Revenues (ttm)	\$51.7M
Shares Outstanding	17.1M	Net Income (ttm)	\$21.4M
Market Capitalization	\$155.6M	Fiscal Year End	March

Bacteria can not only be healthy for individuals but can also be very profitable for a business. China-Biotics, Inc. is one of China's largest suppliers of probiotics, which are beneficial live bacteria used as dietary supplements and food additives to improve intestinal health and digestion. The company's product portfolio contains live microbials, made with proprietary technology, that are sold to both the retail and commercial markets in China. China-Biotics plans to expand its retail sales and will have nearly tripled the number of

Shining brand retail outlets in major Chinese cities by spring 2010. But the real story is the company's expansion into producing probiotics as a food additive in dairy products, infant formula, baked goods and animal feed, areas where management hopes to displace higher-priced imports and ride a wave of healthy, "functional" foods. China-Biotics' 150-ton-capacity probiotics facility will be the only large-scale plant in China that supplies the bulk additive market and is expected to be in full production by mid-summer.

China Medicine Corporation OTCBB: (CHME \$1.78 – 4/29/09)

52-Week Range	\$0.57 - \$3.05	Revenues (ttm)	\$53.6M
Shares Outstanding	15.2M	Net Income (ttm)	\$9.1M
Market Capitalization	\$27.1M	Fiscal Year End	December

While China Medicine has built its business on the strength of its drug distribution, the company is now seeking to introduce new proprietary products that it hopes will set CHME apart from competitors and drive margin expansion. As a leading drug distributor that develops medical formulations and distributes over 2,400 specifications of pharmaceutical products in China, China Medicine is developing novel new technologies and products such as recombinant Aflatoxin Detoxifzyme (rADTZ), an enzyme that

has the potential to remove cancer-causing toxins in food and animal feed. The company's target market for rADTZ is China's \$4 billion entire feed industry. China Medicine distributes its products to wholesale distributors including more than 300 hospitals and 500 medicine companies that sell to 2,000 drug stores in 28 provinces throughout China. The company is also developing proprietary products for diseases that include cancer and high blood pressure. Revenues grew by 27% to \$54 million in 2008, while net income increased 33% to \$9 million.

China Sky One Medical, Inc. NASDAQ: (CSKI \$14.96 – 4/29/09)

52-Week Range	\$6.29 - \$19.11	Revenues (ttm)	\$91.8M
Shares Outstanding	15.4M	Net Income (ttm)	\$28.9M
Market Capitalization	\$230.4M	Fiscal Year End	December

China Sky One Medical, Inc. is a leading integrated pharmaceutical company whose core business is the manufacture, marketing and sale of branded and over-the-counter drugs and diagnostic testing kits. Through its wholly owned subsidiaries, the company manufactures and distributes 97 pharmaceutical products in the PRC with a network that covers 22 provinces and 125 municipalities. Additionally, the company exports its products to over 20 countries including the U.S., Germany, Denmark, Switzerland, Hungary, South Korea, Singapore, Australia and Malaysia, and to regions such as Taiwan and Hong Kong. China Sky One Medical distributes its products through third-party distributors and by selling directly to approximately 4,500 retail stores and hospitals. The company's

most recent acquisition was Peng Lai Jin Chuang Pharmaceutical Company, whose assets included a pipeline of 20 internal-use drugs approved by the State Food and Drug Administration (SFDA) to treat various illnesses. The acquisition has already been accretive. Longer term, China Sky One Medical is focused on stem cell research and development of Endothelin-1, an anti-cancer drug. In 2008, CSKI reported revenues sky-rocketed 86% to \$92 million and net income surged 88% to \$29 million. For 2009, CSKI guided investors to expect top-line growth of 40% and net income growth of 30%, as it ramps up R&D spending to support planned new product introductions.

Jiangbo Pharmaceuticals, Inc. OTCBB: (GNPH \$6.95 – 4/29/09)

52-Week Range	\$3.31-\$21.00	Revenues (ttm)	\$116.9M
Shares Outstanding	10.3M	Net Income (ttm)	\$22.6M
Market Capitalization	\$71.6M	Fiscal Year End	June

Jiangbo Pharmaceuticals (formerly Genesis Pharmaceuticals) is engaged in the research, development, production, marketing and sales of "Jiangbo"-branded Western chemical drugs and Traditional Chinese Medicines. Genesis has the manufacturing technology to produce sophisticated time-release tablets, capsules, syrups, lozenges and granules. Many of the company's products are approved for reimbursement by China's provincial and national healthcare prescription coverage programs. Sales are generated through 28 independent distributors and a network of full-time and part-time sales people. Jiangbo has plans to expand by increasing

its sales of Traditional Chinese Medicines to rural areas in China. Jiangbo has been a cash machine, generating \$26.4 million in cash from operations in the first six months of its fiscal year and with a cash balance of \$83 million on the balance sheet as of December 31, 2008. In late January 2009, the company spent \$9.6 million of that cash to acquire Hongrui Pharmaceuticals, which added 22 new SFDA-approved Traditional Chinese Medicine products to its portfolio. Management recently provided guidance of \$111 to \$116 million in revenues and \$40 to \$43 million in operating income for the fiscal year ending June 30, 2009.

Mindray Medical International Limited NYSE: (MR \$23.25 – 4/29/09)

52-Week Range	\$12.31 - \$44.41	Revenues (ttm)	\$547.5M
Shares Outstanding	107.9M	Net Income (ttm)	\$132.7M
Market Capitalization	\$2.5 B	Fiscal Year End	December

Mindray Medical International Limited is a Chinese-based medical device developer, manufacturer and marketer with domestic and international businesses. In 2008, Mindray increased net revenues 86% to \$547.5 million, benefiting from its acquisition of Datascope's patient monitoring business. Since international sales account for the majority of net revenues, Mindray's carries significant global macroeconomic risks. Hospital spending worldwide will likely continue to contract in the near term and there are currency headwinds for the foreseeable future. Nonetheless, Mindray's

business in China appears strong with the company positioned to benefit from the Chinese government's increased spending on medical infrastructure, particularly for hospitals. The government will likely buy Mindray's basic medical equipment products, such as patient monitoring devices, hematology analyzers, biotechnology analyzers, many of which have earned leading market shares in China. Analysts expect domestic sales to grow at least 30% in 2009. MR also distributed a \$0.20 per share dividend for 2008.

China's Healthcare Reform

Groundbreaking Plan to Reshape and Drive Expansion in Healthcare Spending By Karen Wang

Continued from page 4

Pharmaceutical companies face the dilemma of whether to have their products offered in the national basic drug catalogue. While the catalogue will generate significantly expanded product volumes, the prices of most basic drugs will likely decrease by approximately 20 percent. Given the high cost of participating in public tenders, most companies without cost advantages will voluntarily give up supplying these basic medicines. Smaller producers are likely to focus their attention on OTC products that don't depend on government reimbursement or proprietary drugs (including first-to-market generics) without direct price competition.

Meanwhile, large commercial pharmaceutical enterprises are more likely to be appointed as the distributors of basic drugs due to

their wide sales networks, modern logistics capability, disciplined distribution practices and high-profile drug consulting services. The reform aims to reduce the markup of drug price by distributors, so many wholesalers who are currently winning hospital supply contracts through kickbacks, bribery and tax evasion risk being swept out of the market.

- Government investment in grass-roots-level hospitals and clinics will result in huge purchase orders for medical devices. The investment of each hospital or clinic will be relatively small, which will provide an attractive opportunity for suppliers of basic devices such as disinfectors, diagnostic kits and medical detectors who have a strong sales network and competitive pricing.

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The Continuing Recession: How Bad Is It and How Long Will It Last?
A personal conversation with John Mauldin

I told my readers we would have a recession in 2007; it's now 14 months long and counting. Will this be a "V" shaped rebound or a "L" shaped recovery? With higher unemployment and lower consumer spending, this could be a nasty one, so here's my thoughts on "Why" and "What You Can Do About It."



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Compared to foreign products, “Made-in-China” medical devices will likely experience greater demand since they are more cost-effective and easier to operate for countryside doctors, most of whom only have basic medical training.

- Expansion of planned immunity services will greatly benefit vaccine providers. The Guideline also mentioned that China will build a public sanitary service network, including blood gathering and supply. The Guideline emphasizes that the reformed health care system will make good use of Traditional Chinese Medicines (TCM) and will support the development of TCM technology.

- Finally, we note that it is extremely difficult to transform the business model of state-run hospitals. But if the reform is successful, the marketing practices of Chinese medical products will be changed and the discretion of doctors and hospital administrators (with their attendant profit opportunities) will be reduced. The voting power will shift from doctors to consumers since consumers will not have to buy all the drugs that doctors prescribe them.

Pharmaceutical shares are often favored by investors due to their defensive and counter-cyclical attributes. There are roughly 70 Chinese pharmaceutical companies listed overseas, offering investors many opportunities to play to profound shifts that China’s health care reform will engender. Any investor who is going to make a major commitment to investing in this sector should visit China and speak to the company management teams, distributors, doctors, pharmaceutical company sales representatives, hospital officials, and pharmacists. Below are some of the key factors to consider when picking potential winners in this sector:

Product	Companies could gain competitive advantages with strong product mix and product pipeline. Exclusive and proprietary products will not necessarily face significant price reductions.
Cost advantage	The basic drug system, which aims to reduce the markup from manufacturers to consumers, will squeeze the general profitability of all value chains. Public tender means “winners-take-all”, as a result, companies with superior cost advantages will likely defeat their competitors.
Sales coverage	Companies will benefit from the unified drug supply system if their products are sold nationwide. Brand and reputation are also critical.
Strong balance sheet	Companies with abundant cash can expand their product mix and sales network quickly through acquisitions, which will increase their market share and improve their economies of scale.
Good track record	Check with doctors to get their opinions on product efficacy and safety. Check with health authorities to determine the existence of illegal practices. Find out whether each company has strict quality controls and reporting systems for questionable medical cases.
Growth strategy	Investors should judge whether a company’s growth strategy is practical and conforms to the policy/market direction. Some pharmaceutical companies announced they were sponsoring unique, advanced, profitable and promising R&D projects, when in fact they did not have the resources or could not manage the timeline and therefore lost their investments. These companies have been spinning a fancy story in order to draw the attention of uninformed investors.

Contributors' Bios

Founder

Crocker Coulson / President



Crocker is responsible for the development of investor relations strategies for private and publicly held companies. As President of CCG Investor Relations, CCG Asia (China) and CCGK (Israel), he has been the primary driver of the firm's national and global expansion. He has designed and overseen investor relations campaigns for more than 60 public companies, including numerous IPOs, secondary offerings, acquisitions and proxy contests. Many of the campaigns he has overseen have won top industry awards.

Crocker is a frequent public speaker on subjects relating to investor relations strategy, initial public offerings, reverse mergers, investing in China, disclosure issues and corporate governance. He is regularly quoted in national and local publications on topics related to accounting issues and the capital markets. Crocker served for two years as the co-Chairman of the AeA's Capital Sources conference and for two years as the Chairman of the Investment Capital Conference, hosted by LAVA (Los Angeles Venture Association). He is a board member of both LAVA and the Los Angeles Chapter of the National Investor Relations Institute.

Prior to joining CCG, Crocker served as a writer-researcher for The New Republic magazine in Washington, DC, and wrote for a number of leading publications, including the Los Angeles Times, the Pittsburgh Post-Gazette and ArtNews. He also produced five independent films, several of which were selected for the Cannes Film Festival and Sundance. Crocker graduated summa cum laude from Yale College, where he was Editor-in-Chief of the Yale Daily News. As a Fulbright Scholar, he studied philosophy at the Freie Universität in Berlin.

May 2009 Issue Special Contributor

Katherine Lu / Oppenheimer

Katherine Lu is a Director covering the China healthcare sector. She has been following the sector since 2007 and is one of the most experienced China healthcare analysts on the Street. Her research focuses on identifying industry trends and providing proprietary data points, leveraging her broad healthcare industry experience. Katherine joined the firm in the Specialty Pharmaceuticals equity research group in 2006. Prior to that, she was an associate analyst in the Medical Devices and Technology equity research team at Cowen, following large-cap cardiovascular, orthopedics and hospital supplier companies. Prior to Wall Street, Katherine gained six years pharmaceutical industry experience at Roche and Johnson & Johnson and was a healthcare management consultant at Bogart Delafield Ferrier. Ms. Lu graduated sum cum laude from Nanjing University with a B.S. in Chemistry. She earned her M.S. from Iowa State University and her M.B.A. in finance and accounting, with Beta Gamma Sigma Honor, from the Stern School of Business at New York University.



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China Rising Newsletter, a publication of CCG Investor Relations

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