

## China Advantage E-Alert

**Tuesday, August 11, 2009**

### **This Week**

Several of our portfolio companies have filed Q2 2009 quarterly earnings reports. We've summarized them for **China Natural Gas, China Bio Energy, China Education Alliance, Harbin Electric and China Fire & Security Group**. As you can see from "Briefly" below, several more are expected to release their financials in the next week or two.

### **Current Stop-Loss Recap**

<b>Jinpan International</b>	Stop-Loss at \$31.00
<b>GigaMedia</b>	Stop-Loss at \$4.37
<b>China Natural Gas</b>	Stop-Loss at \$7.95
<b>China Industrial Waste</b>	Stop-Loss at \$1.65
<b>China Green Agriculture</b>	Stop-Loss raised to \$10.15

### **Quarterly Earnings Reports Are Filed**

Several of our portfolio companies have already filed their quarterly earnings reports. Following is a synopsis of those.

#### **China Natural Gas, Inc. (NASDAQ: CHNG)**

Q2 2009 Revenues	\$20.7 million, up 22.8% YOY
Q2 2009 Net income	\$ 3.9 million, up 10.0% YOY
Diluted EPS	\$ 0.26

Cash and cash equivalents	
at 6/30/09	\$ 9.7 million
Current ratio	1.9
Working Capital	\$ 6.8 million

**Comments:** Sales of natural gas grew 14.0% YOY, installation and services revenue grew 74.0% YOY and gasoline revenue increased 42.2% YOY. Sales of natural gas contributed 75.8% of total revenues.

The Company reaffirmed its full year 2009 guidance with revenue growing 15-20% to \$78 million to \$83 million. Net income guidance is a range of \$17.5 million to \$18.5

million or 15-22% growth.

**Recommendation:** We're HOLDing with a Stop-Loss at \$7.95.

**China Bio Energy Holding Group (NASDAQ: CBEH)**

Q2 2009 Revenues	\$65.2 million, up 11.6% YOY
Q2 2009 Net Income	\$ 8.8 million, up 6.4% YOY
Diluted EPS	\$ 0.25

Cash and cash equivalents	
at 6/30/09	\$ 42.5 million
Current ratio	13.3
Working capital	\$ 82.5 million

**Comments:** The increase in revenues was attributed to growth in the Company's finished oil distribution business and sales generated by its six fully operational gas stations, offset by a decrease in biodiesel revenues due to lower selling prices. Distribution volume increased by 26,400 tons, or 56.4% YOY. Sales volume for biodiesel production was slightly lower than the prior year.

Looking ahead, management reaffirms 2009 guidance and expects to report calendar 2009 revenues of at least \$240.7 million and net income of at least \$33.7, representing an increase of 11% and 18% respectively YOY.

Management plans to focus on growing its biodiesel production, its distribution business and expanding the footprint of its retail service stations during the remainder of 2009. The Company plans to strengthen its outreach in certain key distribution areas and add five more retail gas stations.

The Company also plans to expand its current bio-diesel production capacity of 100,000 tons to 150,000 tons, either through strategic acquisitions or through a new build-out in 2009. Management reports that they have secured enough raw materials to supply 150,000 tons of capacity, but will also continue to work toward securing more long-term sources of raw materials and new technology in the bio-energy field.

**Recommendation:** HOLD.

**China Education Alliance, Inc. (AMEX: CEU)**

Q2 2009 Revenues	\$ 8.12 million, up 82.1% YOY
Q2 2009 Net income	\$ 3.24 million, up 95.4% YOY
Diluted EPS	\$ 0.13

Cash and cash equivalents	
at 6/30/09	\$ 31.51 million
Current ratio	16.2
Working capital	\$ 32.62 million

**Comments:** Online education business generated 67.4% of the Company's total revenues for Q2, while its training center business generated 24.7% of total revenue.

China Education believes the education industry in China will remain a high growth sector. The Company has experienced rapid growth by providing online and onsite, supplemental educational training services to students aged 6-10 and vocational and language training services to adults aged 18 and over.

For students age 18 and over, CEU provides various vocational training including IT and other professional programs. In addition, the English training program aims to help college graduates and other professionals improve their written and spoken English in order pursue overseas education or work in an international business environment.

**Recommendation:** HOLD.

**Harbin Electric, Inc. (NASDAQ: HRBN)**

Q2 2009 Revenues	\$ 38.4 million, up 60% YOY
Q2 2009 Net income	\$ (\$5.4 million)
Q2 2009 Adjusted N.I.	\$ 7.4 million, up 19% YOY
Diluted EPS	\$ (0.24)
Adjusted Diluted EPS	\$ 0.33

Cash and cash equivalents	
at 6/30/09	\$ 67.8 million
Current ratio	4.4
Working capital	\$ 15.1 million

**Comments:** Revenues were fueled by strong sales of industrial rotary motors, and the Company received a \$1.17 million grant from the government to support their linear motor driven subway training project.

The loss according to GAAP was attributed to a non-cash charge of \$14.01 million due to a change in fair value of warrants attached to 2010 Notes and 2012 Notes. Note that the non-GAAP net income was up 19% YOY.

The Company just completed the sale of 6.25 million shares of common stock at \$16.00 a share, generating net proceeds of approximately \$93.4 million. The capital infusion is expected to play a critical role in the Company's future growth. Not only were the funds allocated to repurchase of 2010 Notes (which was completed for \$6 million) as well as most of its outstanding debt. In addition, HRBN will be scouting for acquisition opportunities.

The repurchase of these Notes should significantly strengthen the Company's balance sheet as well as improve the income statement for Q3.

**Recommendation:** HOLD.

**China Fire & Security Group, Inc. (NASDAQ: CFSG)**

Q2 2009 Revenues	\$ 22.7 million, up 36.5% YOY
Q2 2009 Net income	\$ 8.3 million, up 24.9% YOY
Diluted EPS	\$ 0.29

Cash and cash equivalents

at 6/30/09	\$ 27.8 million
Current ratio	3.33
Working capital	\$ 75.2 million

**Comments:** The increase in total revenues was attributed to the increase from system contracting products and product sales which, combined, totaled 97.2% of revenues. Revenues were recognized for the quarter from 205 such contracts compared to 177 contracts for Q2 2008.

**Recommendation:** HOLD

### Briefly...

**Yucheng Technologies Limited (NASDAQ: YTEC)** will hold a conference call to discuss results of the three-month period ended June 30, 2009 on August 12, 2009 at 8:00 am EDT.

**E-House (China) Holdings Limited (NYSE: EJ)** will report its financial results for the second quarter ended June 30 before the markets open on August 12, 2009.

**Universal Travel Group (Amex: <sup>[1]</sup>UTA)** will host a conference call at 11:00 A.M. EDT on Thursday, August 13, 2009, to discuss the Company's financial results for the second quarter of 2009.

**Jinpan International Ltd. (NASDAQ: JST)** will reports its financial results for the second quarter ended June 30, 2009 on Friday, August 14, 2009, before the market opens.

Regards,

Research & Editorial Staff  
The China Club

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