

# THE CHINA DISPATCH

VOLUME 7 NUMBER 1

WWW.THECHINACLUB.ORG

JANUARY 2009

## It's a New Year; Let's Get Started With High-Flying Growth and Profits

By Sam Johnson

One thing we know for sure is that in 2009 the market will be different. China will also be different. The days of 12% growth may be gone or just in the doldrums. China may need to adjust to a mere 8% annual growth, and if they need to, they will. Life goes on, here and in the PRC.

So, let's get the ball rolling in 2009 with a high-flying, spectacular category, supply chain management. You know what that is, right?

It's simple; companies create products from parts purchased from suppliers, and those products are sold and delivered to customers. The process that makes all of that happen is the supply chain. Some supply chains are simple, while others are incredibly complicated. The complexity of the chain varies with the business and number of items and actions that make up the chain.

However, one thing remains the same; without effective supply chain management small companies tend to remain small, and big companies can choke on the complexities of doing business.

This month's featured company, SinoHub, Inc.



(OTCBB: SIHI), has spent the last eight years developing one of China's most sophisticated supply chain management platforms. Today, more than 100 companies managing hundreds of electronic component product lines have adopted the SinoHub platform, including top-tier electronic companies such as Future Electronics (the world's third largest) and Yosun (the second biggest in Taiwan), mobile phone OEMs like Motorola and Ericsson, and EMS service providers like Flextronics and Sanmina.

Focused almost exclusively on the electronics industry, SinoHub's proprietary SCM system, created by the Company's own software team, is tailored exactly to the needs of the electronic components  
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market in China. Because of this the process effectively combines information uploading, processing, query and services, like fulfillment, import/export, logistics, Vendor Managed Inventory (VMI), financial information and customer inquiry services into one integrated solution. And, it is all done online and in real time.

Supply chain management is a relatively new management tool, but as the size and complexity of business increases, the need for controls and communication was obvious. However, the sophisticated systems in use today wouldn't have been possible without computers and the Internet.

Prior to the widespread use of the Internet, larger companies employed large, cumbersome, proprietary, closed systems. And, as you can imagine, large, cumbersome, proprietary, closed systems are never cheap. Additionally, most systems were also customized to an individual company, which added to the cost, but more importantly added to the unreliable nature of the entire process.

If you haven't figured it out by now, supply chain management is a combination of art and science designed to improve the way companies find the raw components they need to make a product or service and deliver it to customers as finished products on time and on budget. Nowadays it can also include everything from financial controls to staffing.

In a word, supply chain management is critical. A company that expects to benefit from a supply chain management process understands it will require a major investment in technology. In the past SCM backbone system requirements were very expensive. However, with the adoption of Internet technologies, most businesses can take advantage of web-based software and Internet communications. Instant communication between vendors and customers allows for timely updates of information, which is key in management of the supply chain.

But that's only the beginning of the story. With growing companies, especially in China, the supply chain constantly changes. To adapt to the flexibility of the supply chain, companies develop and implement a formal logistics strategy. This

allows a company to identify the impact of imminent changes and make organizational or functional changes to ensure service levels are not reduced.

Because of this, supply chain management software is historically the most fractured group of software applications on the planet. Each of the major supply chain steps is comprised of dozens of specific tasks, many of which have their own specific software. In the past, companies and vendors have assembled many of these different chunks of software patched together under a single roof, but no one has had a complete package that is right for every company.

Why? Because it is incredibly complicated. However, by combining the traditional supply chain services and advanced technology, the integrated supply chain management platform of SinoHub also provides customers with reliable and convenient services by making each step in the supply chain transparent; it greatly reduces the investment of suppliers in time, resources and manpower, which enhances the efficiency of the entire process.

In addition, by leveraging SinoHub's Vendor Managed Inventory (VMI) service, suppliers and manufacturers can experience greater flexibility, reduce risks, and lower costs. VMI is an optimized supply chain, in which suppliers are in charge of maintaining the inventory of manufacturers, acquiring the inventory data and supplying accordingly.

From what I've read, the more you know about SCM, the more you understand why so many of the major players in electronics are starting to rely heavily on SinoHub, Inc.

It's an impressive company built on a foundation of proprietary software and state-of-the-art information technology that allows real time tracking and SCM via the Internet. The management is solid and experienced, the financials are strong, and the future is bright. Take a look at the research David and Anita have put together starting on page three. It may be what you've been looking for to pull you and your portfolio out of the doldrums.

It's a new year and SinoHub could be the strong start that you've been looking for. ■

### **THE CHINA DISPATCH**

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InvestorsInsight Publishing III, Inc.

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# SINOHUB, INC.

(OTCBB: SIHI)

*By L. David Harrison, CPA and Anita L. Mills*

<b>Day's Range (12/30/08)</b>	<b>\$2.35 - \$2.35</b>
<b>52 Week Range</b>	<b>\$1.01 - \$3.15</b>
<b>Market Capitalization</b>	<b>\$57.58M</b>
<b>P/E (ttm)</b>	<b>7.12</b>
<b>EPS (ttm) (est.)</b>	<b>\$0.33</b>
<b>Shares Outstanding</b>	<b>24.5M</b>

In a time of rising materials costs, companies must do all they can to reduce operating expenses. That's where this month's featured company excels - it makes money by helping others cut costs by operating more efficiently, reducing inventory and quickly locating and restocking materials. It's a win-win situation. SinoHub, Inc. (OTCBB: SIHI) operates a supply chain management service, and the Company believes it is the only such full-service provider in China.

## **The Company and Its Business**

SinoHub, Inc., through five operating subsidiaries, provides electronic component supply chain management (SCM) services and vendor managed inventory (VMI) services. The Company primarily serves electronics manufacturers who integrate electronic components and suppliers who provide electronic components to manufacturers.

SinoHub was founded in 2000 by veteran entrepreneur Henry Cochran and electronic component industry veteran Lei Xia to facilitate the electronics revolution in China. The goal was to provide world-class supply chain management services with transparent information access for participants in the electronic components supply chain in China. The Company began trading on the Bulletin Board following a reverse merger in May of 2008.

## **Supply Chain Management (SCM) Services**

SIHI provides distribution and inventory management services. Working with their customers' existing suppliers

and distributors, they provide import, export and warehousing services, including inventory management, kitting and repacking, plus warehouse storage and insurance as well as timely delivery services. Customers include electronics manufacturers and component suppliers in the PRC.

Through its proprietary, world-class, web-based software SCM Platform, SinoHub brings a comprehensive approach to its customers, which enables them to manage and coordinate the flow of products and services within the entire supply chain. The SCM Platform consists of a web-based online supply chain management system, key service centers in Hong Kong, Shenzhen and Shanghai and a supply chain management service team that is able to work with customers through the online system in real time.

Since the SCM Platform is web-based, customers can quickly determine the status of shipments, the status and location of inventory in any of the Company's warehouses, and the status of financial transactions 24/7, from any location with an Internet connection. The SinoHub SCM is accessible in both Chinese and English.

SinoHub also utilizes its physical locations as service centers for electronic component suppliers and OEM/EMS manufacturers. Physical distances can significantly affect the ability to provide effective SCM services. Therefore, SinoHub has established service centers in Shenzhen and Shanghai

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### **SinoHub continued from page 3**

and plans to establish additional service centers in strategic locations throughout China.

SCM services include import and export services (including customs applications and declaration, bonding, tax reports, VAT advances and insurance); warehouse services in Hong Kong, Shenzhen and Shanghai (for inventory management, kitting and repacking, and warehouse storage); and delivery services (including door-to-door timely delivery with a guaranteed one-day delivery for Shenzhen and two-day delivery for other cities in China from Hong Kong).

Fifty percent of the electronic components entering China are imported through HuangGang Customs in Shenzhen. SinoHub has achieved Client Coordinator Enterprise Status with HuangGang Customs (the highest status possible). This special status provides the Company priority service from government officials and enables SinoHub to obtain customs clearance up to 20 times faster than other importers, resulting in significant time savings for their customers.

Unlike express forwarders, SinoHub is able to charge for its SCM services as a percentage of the value of the goods it handles. SinoHub's processing volume for SCM services in 2007 exceeded \$156 million and is expected to grow substantially in the future.

### **Vendor Managed Inventory (VMI) Services**

SinoHub provides order fulfillment and order procurement services for its customers. VMI is a streamlined approach, and involves collaboration between suppliers and their customers (e.g. distributor, retailer, OEM, or product end user), changing the traditional ordering process.

"Order Fulfillment" is when the customer outsources their purchasing functions to the Company, but SIHI is only authorized to purchase from the customer's current suppliers at pre-negotiated prices. "Order Procurement" is when the Company is allowed to source components themselves and resell the components to their customers. SIHI has extensive knowledge and experience in the electronic components market, and is able to source electronic components for their customers who do not have established relationships with suppliers or who wish to find alternative sources of supply.

The goal of VMI is to align business objectives and streamline supply chain operations for both suppliers and their customers. The delivered value is a direct result of increased information flow, improved inventory turns, improved services and increased sales.

SinoHub's VMI service reduces their customers' replenishment time, consolidates multiple requests to different suppliers, and lowers inventory costs. The VMI services also lower customers' overhead and reduce redundancy.

SinoHub's VMI services also allow their customers to outsource to them one or more aspects of their inventory stocking, fulfillment, procurement and supply chain logistics

operations. SinoHub has established relationships with many electronic component suppliers and manufacturers. Based on years of experience in the electronic component industry and leveraging their SCM Platform, industry contacts and relationships with numerous suppliers, SinoHub is able to find the best supplier for the customer for each component.

In providing Procurement Services, SinoHub purchases and takes title to the electronic components and then resells those components to its customer at a markup. SinoHub also offers short term financing terms of up to 90 days on the purchase of electronic components for selected customers and then charges VMI service fees and a finance charge on such transactions.

A majority of SIHI's revenues come from sourcing components for customers. The Company's trading staff looks for opportunities to source components at more competitive prices than the customer currently receives. When SIHI can achieve a lower price, they will ask the customer if they can quote on that part. In this way, the Company can lower the cost for its customer while earning revenues for themselves. It creates a win-win-win situation for the customer, SinoHub's suppliers and for SinoHub. The Company only purchases standard components that, if necessary, can be sold to a variety of customers.

### **Industry**

China produced approximately \$359 billion in electronic products in 2007, with over 80% of the components for those products being imported. China is now the biggest consumer of electronic components in the world, according to Reed Electronics Research. The growth rate of electronic products production in China is expected to be 16% in 2008.

In North America and Europe, the SCM service market is mature and well established. However, SCM providers in the U.S. and Europe have not provided adequate services for OEMs and EMS manufacturers in China. Chinese manufacturers are unable to purchase components directly from U.S. and European manufacturers, in large part because the component manufacturers do not have well established supply chains into China.

In addition, the explosive growth of electronic component distributors in China and the growth of web-based internet technology have created a very fragmented electronic components market, with no one distributor capturing significant market share. As of December 31, 2007, it was estimated that there were over four thousand electronic components distributors in China; and even the largest distributors in China do not provide complete SCM services to their customers.

This market opportunity is expected to increase with the rapid development of new technologies leading to market growth for electronics products and facilitating China's continuing growth as the world's electronics factory.

## Growth Strategy

SinoHub believes it is the only complete SCM service provider in China dedicated to electronic product manufacturers, suppliers and distributors. The Company's goal is to make the SinoHub SCM platform the most effective SCM platform for electronic components manufacturers and suppliers - not only in China, but also worldwide. In order to achieve this goal, SIHI is working to:

- build SinoHub's brand name recognition and distribution capabilities;
- continue to expand through the addition of warehouses, service centers and hubs in China;
- optimize the SinoHub SCM/MIS system to bolster its dominant industry position;
- continue to expand services provided to customers to increase market share and processing volume; and
- acquire independent distributors in both the U.S. and China starting in 2009 and achieve cost reduction through consolidation.

## Management

The management team for SinoHub has extensive experience in the marketplace and supply chain management, as well as demonstrated expertise in running the operation profitably.

**Henry T. Cochran, CEO and Chairman.** Mr. Cochran is a founder of SinoHub. Previously he was a business consultant as well as CEO of various data and software companies. Mr. Cochran holds a Masters of Science in mathematics from the University of Maryland and a bachelors in mathematics and economics from Vanderbilt University.

**Lei Xia, President.** Mr. Xia is a founder of SinoHub. He is primarily responsible for SinoHub's strategic business development, sales and marketing. Previously he founded a high-end software distributor and solution provider, as well as starting the Chinese operations for a Swedish manufacturer and packaging solution provider to major OEMs such as Ericsson, Nokia, Motorola and Nortel. Mr. Xia holds a bachelors in electrical engineering from the University of Alabama.

**De Hai Li, CFO.** Mr. Li has served as CFO and more recently as VP of Finance for SinoHub. He previously was CFO of an international logistics management company located in Shenzhen. He has managed the acquisition of a state-owned company with several subsidiaries, as well as an OEM. Mr. Li has also worked in finance for a governmental institute. He holds a bachelor's degree in economics and management from Hubei University.

**Zan Wang, Director.** Mr. Wang is the general manager of an electronic component trading company, which he founded in 2002. He was previously general manager of an electronic components distributor and sales manager for a distributor of integrated circuits. He brings a good understanding of hardware design and systems. Mr. Li holds an MBA and B.S. in electrical engineering from Peking University.

**Charles T. Kimball, Director.** Mr. Kimball is currently

chief research consultant for one of the first mutual fund companies established in China. His 30-year career includes time with firms such as JP Morgan and Morgan Trust Bank in Tokyo; he has served as the head of investment research, asset management, and been an equity analyst covering the electrical equipment and electronics industries. Mr. Kimball holds an MBA from Stanford University Graduate School of Business and a bachelor's in economics from Harvard University. He recently received a certificate in environmental economics, management and finance from the Center for Environment Research and Conservation (CERC) at Columbia University.

## Financial Information

Below is a financial summary for SinoHub for the past twelve months, along with a ratio analysis.

### SinoHub Summary Financial Information

#### Balance Sheet Data (000s) Sep '08

Cash	8,567
Net Current Assets	29,339
Current Ratio	3.16
Long-term Debt	0
L-T Debt to Equity Ratio	0

P&L Data (000s)	Sep '08	Jun '08	Mar '08	Dec '07
Revenues	28,183	13,209	11,618	10,404
Gross Profit	6,078	1,999	1,838	2,088
Operating Profit	5,016	821	1,243	955
Net Profit	3,919	540	1,088	858
EPS	0.18	0.03	0.05	0.07

#### Margin Analysis (%)

Gross Margin	21.57%	15.13%	15.82%	20.07%
Operating Margin	17.80%	6.22%	10.70%	9.18%
Net Margin	13.91%	4.09%	9.36%	8.25%

The Company has an excellent current ratio, and no long-term debt, while showing an increase in revenues QoQ and YoY.

Below is a summary for the nine months ending 9/30/08 as well as FYE 12/31/07 and 12/31/06. It illustrates the rapid growth SinoHub is experiencing.

P&L Data (000s)	YTD Q3	FY 2007	FY 2006
Revenues	53,010	28,794	19,052
Gross Profit	9,916	6,669	4,043
Operating Profit	7,080	3,989	1,212
Net Profit	5,548	3,501	1,202
EPS	0.28	0.24	0.09

#### Margin Analysis (%)

Gross Margin	18.71%	23.16%	21.22%
Operating Margin	13.36%	13.85%	6.36%
Net Margin	10.47%	12.16%	6.31%

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<b>CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME</b>				
(Unaudited)				
(in 000s, except per share data)				
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>NET SALES</b>				
Supply chain management services	\$1,270	\$441	\$2,361	\$1,314
Electronic components	26,913	6,696	50,649	17,076
Total net sales	28,183	7,137	53,010	18,390
<b>COST OF SALES</b>				
Supply chain management services	671	162	953	610
Electronic components	21,434	5,326	42,141	13,199
Total cost of sales	22,105	5,488	43,094	13,809
<b>GROSS PROFIT</b>	<b>6,078</b>	<b>1,649</b>	<b>9,916</b>	<b>4,581</b>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	954	451	2,037	1,277
Merger related expenses	18	--	511	--
Depreciation	90	91	288	270
Total operating expenses	1,062	542	2,836	1,547
<b>INCOME FROM OPERATIONS</b>	<b>5,016</b>	<b>1,107</b>	<b>7,080</b>	<b>3,034</b>
<b>OTHER (INCOME) EXPENSE</b>				
Interest expense	53	42	181	109
Other, net	(24)	(55)	(59)	(87)
Total other (income) expense	29	(13)	122	22
<b>INCOME BEFORE TAXES</b>	<b>4,987</b>	<b>1,120</b>	<b>6,958</b>	<b>3,012</b>
Income tax expense	1,068	140	1,410	368
<b>NET INCOME</b>	<b>3,919</b>	<b>980</b>	<b>5,548</b>	<b>2,644</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency translation gain	216	64	680	121
<b>COMPREHENSIVE INCOME</b>	<b>\$4,135</b>	<b>\$1,044</b>	<b>\$6,228</b>	<b>\$2,765</b>
<b>SHARE AND PER SHARE DATA</b>				
Net income per share-basic	\$0.19	\$0.06	\$0.28	\$0.17
Weighted average number of shares - Basic	21,021	16,046	19,503	15,453
Net income per share- diluted	\$0.18	\$0.06	\$0.28	\$0.17
Weighted average number of shares - Diluted	21,389	16,178	19,871	15,585

## CONDENSED CONSOLIDATED BALANCE SHEETS

(000s, except per share data)

	Sept 30, 2008	Dec 31, 2007
<b>ASSETS</b>		
Current assets		
Cash	\$8,115	\$4,282
Restricted cash	452	5,509
Accounts receivable, net	18,971	9,748
Inventories	1,057	853
Prepaid expenses and other	744	426
Due from related company	--	1,493
Total current assets	29,339	22,311
Property and equipment, net	583	846
Total assets	\$29,922	\$23,157
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$3,372	\$6,777
Accrued expenses and other	357	307
Bank borrowings	2,780	6,904
Notes payable to third parties	--	251
Due to related company	687	--
Income and other taxes payable	2,097	1,457
Total current liabilities	9,293	15,696
Commitments and contingencies	--	--
Stockholders' equity		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized; No shares issued and outstanding		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 24,478,000 shares issued and 18,290,000 shares outstanding	24	18
Additional paid in capital	11,443	4,509
Retained earnings		
Unappropriated	7,857	2,309
Appropriated	356	356
Accumulated other comprehensive		
Income	949	269
Total stockholders' equity	20,629	7,461
<b>Total liabilities and stockholders' Equity</b>	<b>\$29,922</b>	<b>\$23,157</b>

SinoHub has enjoyed an outstanding year-to-date in 2008, and its financial statements reflect that. There are a number of areas where their performance stands out. Net income increased by approximately 400% for the 2008 third quarter to \$3.9 million from \$980,000 in Q3 2007.

Total revenues for the third quarter increased from \$7.1 million in 2007 to \$28.2 million in 2008, an increase of nearly 400%.

Revenues from the Company's supply chain management services increased by 295% to \$1.3 million for the third quarter of 2008 from \$441,000 in the third quarter of 2007. SinoHub's electronic component procurement and sales business generated revenues of \$26.9 million in the third quarter of 2008, increasing by more than 400% from \$6.7 million in the same period last year.

Total operating expenses for the third quarter of 2008 amounted to \$1.1 million, or approximately 4% of total revenues, compared with \$542,000, or approximately 8% of total revenues in 2007. The increase in total operating expenses reflects higher selling, general and administrative costs to support the Company's substantial revenue growth, as well as one-time incremental costs related to SinoHub's May 2008 reverse merger.

At September 30, 2008, SinoHub had \$8.1 million in non-restricted cash and cash equivalents, up from \$4.3 million at December 31, 2007.

Net income for the first nine months of 2008 more than doubled to \$5.5 million from \$2.6 million for the 2007 year-to-date period. Total revenues grew approximately 188% to \$53.0 million, from \$18.4 million in the same period last year. Total operating expenses in the 2008 year-to-date period were \$2.8 million, including \$0.5 million in merger-related expenses, or 5% of total revenues, compared with \$1.5 million, or 8% of total revenues, in the 2007 period.

SinoHub, with its comprehensive strategic growth plan, appears to have what it takes to continue its high rate of revenue and earnings growth which will certainly be reflected in future financial statements.

### Recent Events

In September 2008, SinoHub closed a PIPE offering with accredited investors. The gross proceeds were \$7.5 million and included common stock, three-year warrants and five-year warrants. Net proceeds to the Company of approximately \$6.5 million were allocated to accelerating the growth of its electronic component procurement business.

### Conclusion and Recommendation

SinoHub has all the components to be a huge success. It has innovative, visionary, knowledgeable and experienced management; it is filling a significant gap in services for which there is strong customer demand; it enjoys a unique advantage over most competitors with its Client Coordinator Enterprise Status; it has solid fundamentals and is well financed with no long-term debt; and it is oriented toward an industry that is showing explosive growth. We believe SIHI is good value at current market and a BUY up to \$3.50.

# PORTFOLIO REVIEW

Following is our year-end summary for each of the portfolio companies. Watch the weekly China Advantage E-Alerts for up-to-date recommendations, ongoing reviews and expanded commentary regarding significant corporate events.

CURRENT ANALYSIS AT 12/30/08:

## GUANGSHEN RAILWAY

Guangshen Railway Company Ltd. (NYSE: GSH) was established in 1996 and is currently the only PRC railway enterprise with its shares listed overseas. The Company holds the sole operating rights of one of the most modern railways in the PRC. GSH is mainly engaged in railway passenger and freight transportation businesses between Guangzhou and Shenzhen and long-distance passenger transportation services, as well as the Hong Kong Through Train passenger service in cooperation with Kowloon-Canton Railway Corporation ('KCRC') of Hong Kong. As of June 30, 2008, the Company operated 216 pairs of passenger trains, including 100 pairs of high-speed trains between Guangzhou and Shenzhen, 103 pairs of long-distance trains, and 13 pairs of Guangzhou-Hong Kong through-trains.

For the first three quarters of 2008, GSH reported revenues from operation increased 17% YOY. The negative impact caused by snowstorms in early 2008 was offset by the completion of the Fourth Rail Line in mid-2008, as well as the commencement of long-distance passenger train service from Guangzhou to Zhengzhou. Net profit, however, declined 7% YOY. This was attributed to the conversion of bank loan interests into expenses for the construction of the Guangshen Fourth Rail Line, resulting in an increase in financing costs, as well as the gradual increase of the income tax rate from 15% to 25%.

Going forward, the Company plans to proactively develop long-distance passenger train operations so as to ensure a comprehensive and solid growth of operations. Earnings per ADS (ttm) are \$1.40, resulting in a P/E ratio of 13.1. HOLD.

## COGO GROUP

Cogo Group, Inc. (NASDAQ: COGO) sells component parts for electronic devices and equipment, such as liquid crystal displays, cameras, persistent storage and peripheral devices for wireless handsets and fixed-line telecommunication, to manufacturers in the PRC and internationally. The Company also provides technology and engineering, business process outsourcing and it works with virtually all the major ODMs and OEMs in China. Cogo's customer list includes more than 1,000 manufacturers across the mobile handset, telecommunications equipment, industrial and consumer markets.

For the nine months ended 9/30/08, revenue for COGO was \$206 million (up 22% YOY), and net income was \$13 million. Net income was down 16% YOY; this was attributed

to the Company's business strategy to expand market share by lowering gross margin in the third quarter. Diluted EPS was \$0.33 for the nine months. The Company had \$117 million in cash at the end of Q3, and a current ratio of 4.1. Cash flow from operations was \$11 million.

COGO signed an agreement with Microsoft Windows Embedded Business to be an authorized distributor partner in China which will allow the Company to expand digital media and industrial control businesses. It has also signed a supplier partnership agreement with Maxim Integrated Products, Inc. in order to expand business in industrial applications and digital media markets. Although management anticipates that global economic slowdown will continue into 2009, COGO plans to continue growth by increasing the average sales price in existing products and expanding into new end-markets through acquisitions.

COGO's (ttm) EPS was \$0.49, resulting in a P/E multiple at current prices of 8.0. HOLD.

## HARBIN ELECTRIC

Harbin Electric, Inc. (NASDAQ: HRBN) is a developer and manufacturer of a wide array of electric motors; its major product lines include linear motors, automobile specialty micro-motors, and industrial rotary motors. The Company's products are sold to domestic and international customers, including those involved in oil services, factory automation, food processing, packaging, transportation, automobile, medical devices, machinery and tool manufacturing, petrochemical, as well as in the metallurgical and mining industries.

For the nine months ended 9/30/08, HRBN's total revenues were \$86 million, up 87% YOY, including \$15 million in sales from Hengda (an industrial rotary motor business) acquired in July 2008. Revenue from automobile specialty micro-motors business grew 352% YOY. Sales to international markets increased to 15% of total revenues, up from 12% in the same period of 2007. Net income was \$19 million, up 52% YOY. Diluted EPS was \$0.92. HRBN ended the quarter with \$45 million in cash and a current ratio of 4.8.

The PRC government plans to invest heavily over the next few years in the mass transit infrastructure. HRBN is the only domestic manufacturer of the linear motor driving-system officially approved by the government, and expects to begin production of this system during the second or third quarter of 2009, with an initial target of 80 sets supplying 10 groups of trains in 2009. The Company's main product for the oil industry, a tower-type oil pump which delivers significant energy savings, has already gained market acceptance. Sales volume of the pumps is expected to double in 2009.

Harbin Electric is successfully diversifying its product line into niche industries with growing demand. The EPS (ttm) is \$1.13, which gives it a P/E multiple of 6.9 at current trading prices. It's a HOLD for us.

## JINPAN INTERNATIONAL

Jinpan International Ltd. (NASDAQ: JST) designs, manufactures, and markets cast resin transformers for power distribution and wind energy products. Jinpan's cast resin transformers allow high voltage transmissions of electricity to be distributed to various locations in lower, more usable voltages. The Company maintains offices in China and the U.S.

Through the first nine months of 2008, revenue increased 40% YOY to \$109 million and net income rose 38% YOY to \$14 million. Diluted EPS was \$1.67. The Company reiterates its 2008 guidance for sales of approximately \$155 million, a 30% YOY increase; however, guidance for net income has been revised down slightly to approximately \$20 million, or \$2.45-\$2.52 per diluted share, as a result of taxes due on U.S. operations. JST ended the quarter with \$12 million in cash and a current ratio of 1.9.

JST has experienced an increase in demand for its cast resin transformers, both in China and internationally, as well as for the Company's wind energy products which include transformers and reactors for wind energy applications.

Energy from low-polluting sources is becoming a priority worldwide, and JST is moving with the times to meet the demand for transformers. Jinpan has a (ttm) EPS of \$2.49 resulting in a P/E multiple of 7.1 at current prices. HOLD.

## AMERICAN ORIENTAL

American Oriental Bioengineering, Inc. (NYSE: AOB) is a fully integrated, pharmaceutical company dedicated to improving health through the development, manufacture and commercialization of a broad range of pharmaceutical products and a line of health supplements products known as nutraceuticals. Specifically, the Company has a range of products including treatments for influenza and upper respiratory infections, as well as over-the-counter incontinence products and common cold medications.

Revenues for the nine months ended 9/30/08 were \$168 million, up 63% YOY, while net income for the period was \$40 million, up 42% YOY. Diluted EPS was \$0.50, up 25% YOY, even though diluted weighted average shares increased 16%. The Company had \$220 million in cash and cash equivalents at 9/30/08, and a current ratio of 7.8. Therefore, it was not surprising that in October it acquired two complementary companies for an aggregate \$53.1 million in cash.

AOB is still on a high-growth curve, with a successful strategic plan of expansion into rural markets as well as acquiring smaller complementary businesses. It has a ttm EPS of \$0.70, and at current prices is trading at a P/E multiple of 8.2. It's a HOLD for us.

## FLEXTRONICS INTERNATIONAL

Flextronics International Ltd. (NASDAQ: FLEX) is an electronics manufacturing services provider focused on delivery of complete design, engineering and manufacturing services to automotive, computing, consumer digital, industrial, infrastructure, medical and mobile OEMs. The Company has a network of facilities in 30 countries on four continents.

Net sales for the six months ended 9/30/08 (FLEX's fiscal year end is March 31) was \$17.2 billion, up 61% YOY; however, net income decreased 26%. Management attributed this to costs of acquisitions, particularly Solectron, as well as investments in resources and technologies to enhance current competencies. Also contributing to the decrease was approximately \$20.7 million in provision for doubtful accounts associated with certain customers experiencing financial difficulty. As of September 26, the Company had \$1.7 billion in cash.

FLEX has filed a Tender Offer to buy-back up to \$250 million of the nearly \$500 million in 1% Convertible Subordinated Notes due in 2010. In addition, the shareholders approved a stock repurchase of up to 10% of the outstanding ordinary shares.

Flextronics is one of the largest OEM services providers in the world, with financially astute management and a plan to enhance shareholder value. HOLD.

## GIGAMEDIA

GigaMedia, Ltd. (NASDAQ: GIGM) is a major provider of online entertainment software and services. The Company develops and licenses software for online gaming, as well as operating the world's largest online MahJong game site in terms of revenue, and operating online games including FunTown and sports games. GIGM's Everest Poker, a sponsor of the World Series of Poker, was awarded Poker Operation of the Year in a London awards ceremony; the Everest Gaming platform has added over 40 new cash-wager casino games featuring Marvel's Incredible Hulk, Spider-Man, and X-Men. In December, the Company launched the localized Chinese language website for Warhammer Online: Age of Reckoning, a fantasy Multiplayer Online Role-Playing Game, a game that was previously launched in North America, Europe and Southeast Asia. A recent strategic partnership with renowned sports betting leader Victor Chandler International Group will tap into the enormous global sports betting market with the launch of Everest Bets.

During the nine months ended 9/30/08, GIGM's revenues were \$149.2 million, with net income of \$35.3 million. Third quarter's revenues were up 16% YOY at \$45.7 million, while net income was up 24% to \$12.0 million YOY. Diluted EPS for Q3 was \$0.20, and \$0.59 for the first nine months of the year.

With the disposal of its legacy ISP business in the third quarter, GigaMedia completed its transition to an online entertainment leader. Although summer is normally a slowdown period, the Company performed well in Q3 and ended the quarter with \$91.0 million in cash and \$47.5 million in working capital. A new CFO appointed in August brings experience as an auditor with Deloitte Touche Tohmatsu as well as prior expertise in the Internet industry.

We see a company that is just hitting its stride in a niche market, with savvy management and a P/E multiple of 7.7 on EPS (ttm) of \$0.76. HOLD.

## FUSHI COPPERWELD

Fushi Copperweld, Inc. (NASDAQ: FSIN) is a global

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manufacturer and innovator of copper-clad bimetallic wire used in a variety of telecommunication, utility, automotive and other electrical applications.

Revenues for the first nine months of 2008 were \$180 million, up 128% YOY, attributed to both an increase in sales volume from the Dalian facility and the contribution from acquisition of Copperweld in October 2007. Net income for the period was \$24 million (up 18% YOY), or \$0.83 per diluted share, down slightly YOY due to an increase in diluted average weighted shares. At 9/30/08 the Company had \$50 million in cash and a current ratio of 3.4.

FSIN was impacted somewhat by the global economic situation, but posted revenue growth nonetheless. Management anticipates the possibility of a lower demand going forward, while copper prices have dropped. The Company sees, though, another ancillary outcome of the current environment in that competitors with weaker balance sheets may have a difficult time surviving this environment, leaving a larger market share for FSIN. Fushi's plan is to continue to stay in close contact with their customers and with the industry, and continue to identify new ways to increase revenues and improve margins.

The benefits of full integration of Fushi Copperweld are anticipated in 2009, as a result of equipment relocation and ramp up of additional product lines. Sales growth is expected to be increasingly broad based because of growing demand in the Chinese industrial sector. Given the Company's facilities in Dalian, PRC; Fayetteville, TN; and Telford, UK, it is geographically diversified and in a strong position to gain global market share.

Fushi's EPS (ttm) was \$1.16, resulting in a P/E multiple of 3.4. HOLD.

## CHINA MEDICAL TECHNOLOGIES

China Medical Technologies, Inc. (NASDAQ: CMED) is a China-based medical device company that develops, manufactures and markets advanced in-vitro diagnostic products using Enhanced Chemiluminescence (ECLIA) technology and Fluorescent in situ Hybridization (FISH) technology, to detect and monitor various diseases and disorders, as well as systems using High Intensity Focused Ultrasound (HIFU) for the treatment of solid cancers and benign tumors.

CMED has acquired HIFU, ECLIA and FISH technology platforms, successfully integrated these technologies into existing operations and developed and marketed products utilizing these technologies.

The Company maintains a FYE of March 31. The Q2 report (for six-month period ending September 30, 2008) showed revenues of \$75.9 million and net income of \$29.0 million. Based on a diluted average of 31.5 million ADSs, the earnings per ADS would be \$0.92. For the FY ending 3/31/08, the earnings per ADS were \$1.70. For FYE 3/31/08, revenues were up 67% YOY and net income was up 12% YOY.

CMED raised \$240 million in August 2008 by the concurrent offering of convertible senior notes and up to 4.7 million ADSs. Net proceeds were allocated for general corporate purposes and acquisition of businesses, products and technologies to complement the existing business. In October CMED acquired the HPV-DNA Biosensor Chip and Surface Plasmon Resonance-based Analysis System for the detection of human papillomavirus for a cash consideration of \$345 million in installments. This system is expected to contribute to revenues in FY 2009 to the tune of \$23.6 million to \$26.5 million. In November the Company completed the development of two proprietary molecular diagnostic kits for non-small cell lung cancer therapy.

CMED is successfully executing its strategic growth plan. According to QuoteMedia the EPS (ttm) is \$2.70, for a P/E multiple of 8.1 at current prices. We're HOLDing.

## CHINA SHEN ZHOU MINING & RESOURCES

China Shen Zhou Mining & Resources, Inc. (AMEX: SHZ) engages in the exploration, development, mining and processing of fluorite and nonferrous metals such as zinc, lead and copper in Inner Mongolia and Xinjiang regions in China and western Kyrgyzstan.

For the nine months ended 9/30/08, SHZ reported \$4.8 million in net revenue (down 60% YOY) and a net loss of \$7.5 million. Diluted loss per share for the period was \$0.339. The Company ended the quarter with \$462,000 in cash and a current ratio of .49. The cash flow statement shows net cash used in operating activities to be \$329,000.

A combination of capital needs for mine development, construction and purchase of processing plants and mining equipment along with decrease of production and sales revenue has seriously impacted SHZ. The Company appears to be living on short-term borrowings. Although management reassures investors that the recently completed fluorite processing plant is expected to have extracted 100,000 metric tons of fluorite ore by the end of 2008, completion of the plant was delayed, and the tonnage processed is less than the 109,000 metric tons of fluorite ore extracted in 2007. Due to supply issues related to non-ferrous ore, the Company did not produce any non-ferrous concentrates during the first nine months of 2008. However, concentrate sulphur was produced in order to mitigate the impact of the non-ferrous supply shortages. In addition, SHZ reports that prices of zinc and copper are now lower and so management is considering taking steps to decrease total output to avoid more losses if the price does not rebound soon.

Unless the Company can raise capital soon or receives governmental assistance, we believe it may not be able to weather the global economic challenges. It's a SELL.

## SORL AUTO PARTS

SORL Auto Parts, Inc. (NASDAQ: SORL) is principally engaged in the manufacture and distribution of automotive air brake valves and related components for commercial vehicles weighing more than three tons, such as trucks and buses. The Company distributes products both in China and internationally under the SORL trademarks. The Company's product

range includes approximately 40 categories of brake valves with over 1000 different specifications.

For the nine months ended 9/30/08, SORL reported sales of \$105.8 million, up 27% YOY, and net income of \$10.6 million, up 27% YOY. Diluted EPS for the period was \$0.58 and for ttm was \$0.72.

Even during Q3 and despite the stagnant global economic environment, management proudly showed 11% YOY revenue growth. However, the Company believes the slowdown will impact the vehicle market in China and is preparing to make adjustments. In particular, they plan to put maximum effort into developing high potential market segments including buses and agricultural vehicles. They are also working to sell more systems which have a higher margin, as opposed to individual components, as well as secure better customer relationships. In so doing, they will develop new customers and extend credit cautiously.

At the end of Q3, the Company had a current ratio of 4.5, working capital of \$59.4 million and cash flow from operations of \$5.6 million. At current prices, the stock is trading at a P/E multiple of approximately 2.7. Let's HOLD for now.

### **CHINA FIRE & SECURITY**

China Fire & Security Group, Inc. (NASDAQ: CFSG) is a total solution provider of industrial fire protection systems in China. Via its nationwide direct sales force of 30 sales and project offices, China Fire has built a solid client base including major companies in iron and steel, traditional power generation, petrochemical and nuclear power industries. The Company has 52 issued patents covering fire detection, system control and fire extinguishing technologies.

For the nine months ended 9/30/08, China Fire posted revenues of \$48 million, up 47% YOY, attributable to the execution of an increased number of total solution contracts and a significant increase in revenue from maintenance services. Net income for the period was up 40% YOY to \$18 million; this was attributed to the improved operating margin. Fully diluted EPS was \$0.63, up 34% YOY.

China Fire's management sees the Company as still being in the early stage of executing its growth strategies. Given the economic situation, management is reevaluating credit policies extended to current customers and has adopted tighter control over expenses in order to ensure healthy cash flows. Going forward, CFSG will focus on and serve its major customers who are the top tier companies in the iron and steel industry in China, continue to invest in technological innovation and intellectual property protection, expedite the Company's expansion into more industrial sectors, pursue fire protection projects and product sales in international markets with the initial focus on India and Russia, and grow through M&A to support and supplement organic growth strategies.

Dynamic and focused are what come to mind with China Fire. Diluted EPS (ttm) is quoted at \$0.78, resulting in a current P/E multiple of 8.2. HOLD.

### **SHENGTAI PHARMACEUTICAL**

Shengtai Pharmaceutical Inc. (OTCBB: SGTI) is a manu-

facturer and supplier of pharmaceutical grade glucose used for medical purposes. It also manufactures and supplies glucose and cornstarch products to the food, beverage and industrial production industries in China.

During Q1 (ending 9/30/08) of FY2009, the Company reported that revenues totaled \$18 million, a 6% decrease YOY. This was due in part to disruption to the food and beverage industry, as well as restrictions on manufacturing and transportation, as a result of the Beijing Olympics. The impact is viewed as temporary, and a recently restructured international sales team will position the Company to take advantage of opportunities in targeted overseas markets.

Net income for the quarter was \$629,796, or \$0.03 per diluted share - down significantly YOY. At 9/30/08, SGTI had cash and restricted cash totaling \$7 million, \$2.5 million in positive cash flow from operations, and a current ratio of .40 (current liabilities includes \$21.7 million in short-term loans).

Higher sales of glucose products due to commencement of operations of a new glucose production facility, improved product mix and higher utilization of cornstarch production for international use in glucose production are expected to help drive revenue and net income into 2009.

The Company's EPS was \$0.52, representing a P/E multiple of 2.7. HOLD for now and let's see what Q2 looks like.

### **CHINA HOUSING & LAND DEVELOPMENT**

China Housing & Land Development, Inc. (NASDAQ: CHLN) is a developer of residential and commercial properties in northwest China. Management believes it is the first and only Chinese real estate development company traded on NASDAQ. The Company's Tsining JunJing II project is a multi-family and retail project on 18 acres scheduled to be completed in 2010. It is in the first phase of development, with approximately 68% of all available first-phase units presold. Construction on the second phase is expected to start in the second half of 2009.

The Baqiao project in Xi'an is 487 acres, of which a 79-acre residential site is located directly on the Ba riverfront, making it prime real estate. Forty-nine acres will be devoted to upper-income housing, with the remaining 30 acres dedicated to riverfront walks, green space, parks and infrastructure. The latter has already been funded by Xi'an's Baqiao District government. Excavation for the first buildings will begin in early 2009 and pre-sales will begin in Q4 2009. The project is expected to be completed in 2014.

For the 9 months ending 9/30/08, the Company reported \$25.5 million in total revenues, down slightly YOY, although revenues for the quarter increased 25.0% YOY. This was primarily due to the cyclic nature of the real estate development industry. Net income was \$2.6 million, slightly up YOY. Diluted EPS was \$0.07. The Company had cash and restricted cash of \$15.3 million at 9/30/08, with an estimated current ratio of 1.25.

CHLN is currently in the process of registering shares underlying 5.0% Senior Secured Convertible Notes and Warrants sold in a \$20 million offering in January of 2008. It's diluted EPS for ttm is \$0.55, representing a P/E multiple at current prices of 2.12. With its strong management team

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and history of successful developments, we see a bright future for CHLN. It's a BUY for us.

### CHINACAST EDUCATION

ChinaCast Education Corporation (NASDAQ: CAST) is organized into two business divisions: the E-Learning Group, encompassing the Company's core e-learning education service businesses, and the Traditional University Group, offering accredited bachelor and diploma programs to students from the Foreign Trade and Business College (FTBC) campus in Chongqing. The Company offers career-oriented bachelor's degrees and diploma programs in business, economics, trade, tourism management, advertising, language, IT and music as well as English language and vocational training courses through its interactive, multimedia broadband network.

For the first nine months of 2008, CAST reported revenues of \$30 million, up 61% YOY, and income of \$8 million, up 21% YOY. Diluted EPS was \$0.27, up 16% YOY. At the end of Q3, ChinaCast had cash and cash equivalents of \$13 million, term deposits of \$60 million, and a current ratio of 1.6. Total revenue for 2008 is expected to be in the range of \$34-\$37 million with a net income of \$11-\$14 million.

ChinaCast had an EPS (ttm) of \$0.34 and a P/E multiple of 6.4 at current prices. CAST is capably combining the synergy of bricks-and-mortar with the Internet to provide a fast growing educational marketplace. HOLD.

### UNIVERSAL TRAVEL

Universal Travel Group (OTCBB: UTVG) is a fast growing travel services provider in China, that offers reservation, booking, and domestic and international travel and tourism services throughout China via the internet and through customer representatives. The Company's core services include tour packaging for customers, booking services for air tickets and hotels as well as air cargo transportation. UTVG also provides air cargo transportation services. Universal Travel's goal is to become China's leading travel services provider in all fields of the tourism industry including the aviation, cargo, hotel booking and tour packaging segments.

For the nine months ended 9/30/08, Universal Travel's revenues were up 77% YOY to \$47.3 million, and net income was \$8.2 million, up 52% YOY. Cash at 9/30/08 was \$12.6 million with a current ratio of 6.6. The Company had no long-term debt.

During 2008, UTVG rolled out its TRIPEASY kiosks, aimed at business travelers and those who have limited or no access to the Internet, to be located in high traffic public areas in order to facilitate the booking of travel and purchase of tickets. In spite of the current economic situation, the Company continues to experience strong demand for its products and services. Management believes it has built-in resilience with integrated and diversified services, with the aim of capturing a larger share of the travel market. Internet booking has gradually replaced traditional phone call bookings as the primary method of access.

The 2008 estimated diluted EPS is \$0.35; at current trading prices that represents a P/E multiple of 2.4. UTVG is in BUYING territory.

### CHINA EDUCATION ALLIANCE

China Education Alliance Inc. (OTCBB: CEUA) is a dynamic, China-based company offering high-quality education resources and services to students ages 7 to 18 and adults ages 18+. The Company offers supplemental online exam-oriented training materials and on-site exam-oriented training as well as tutoring services. For graduates and professionals age 18+, CEUA provides vocational training including IT and Accounting training programs. In April 2008, the Company acquired 70% of the 'World Exchange College of Language' English training business, headquartered in Toronto with sites expanding across China. Their comprehensive English programs are designed to assist graduates and professionals in learning the English language, both written and conversational in order to better prepare them to work for a foreign corporation or work-study abroad.

For the nine months ended 9/30/08, revenues were \$15.7 million, up 26% YOY, attributed to an increase in the online education business expansion. Net income for the nine months was \$6.3 million, up 40% YOY. Fully diluted EPS was \$0.26. The Company ended the quarter with \$20 million in cash and cash equivalents and no long-term debt. The current ratio was 8.9.

The EPS (ttm) was \$0.19, for a P/E multiple of 6.6 at current prices. It's still in BUYING range.

### E-HOUSE (CHINA) HOLDINGS

E-House China Holdings Limited (NYSE: EJ) is a real estate services company in China. With a presence in more than 30 cities, E-House provides primary real estate agency services, secondary real estate brokerage services and real estate consulting and information services. E-House believes it has the largest and most comprehensive real estate database system in China, providing up-to-date and in-depth information covering residential and commercial real estate properties in all major regions in China.

For the nine months ended 9/30/08, EJ had revenues of \$115.5 million, up 64% YOY; net income was \$31.3 million, up 62% YOY, while diluted earnings per ADS were \$0.39. Management stated that the China real estate industry is experiencing its most severe downturn in recent history, with a sharp decline in both primary and secondary real estate transaction volumes across most of the cities where they operate. Although total sales volume of properties sold by E-House also declined, especially in Q3, the Company was able to achieve revenue and income growth primarily due to their rapidly expanding consulting and information services business. Many developers with projects in E-House's pipeline launched sales and carried out aggressive promotions in order to generate sales volume and cash flow.

E-House ended the quarter with \$173 million in cash and cash equivalents, and a current ratio of 6.1. The (ttm) earnings per ADS are \$0.66, resulting in a P/E multiple of 11.3. HOLD.

## CHINA NATURAL GAS

China Natural Gas, Inc. (OTCBB: CHNG) is the first China-based natural gas retailing company publicly traded in the U.S., according to the Company. It currently owns and operates a network of compressed natural gas (CNG) retail filling stations as well as a 120 kilometer long CNG pipeline in Xi'an. Xi'an is a fast growing Chinese city with a population of approximately eight million and is the "gateway" to the broad Western regions of China. CHNG currently retails natural gas at company-owned filling stations, delivers natural gas services to residential, commercial and industrial customers, and converts gasoline-fueled vehicles to hybrid (natural gas/gasoline) powered vehicles. Currently it is estimated that there are 5,000 buses and 20,000 taxis using CNG in Xi'an.

At 9/30/08, the Company reported revenues for the first nine months of \$49.3 million, up 105% YOY. Net income was \$11.4 million, up 68% YOY. Diluted EPS was \$0.39. CHNG had cash and cash equivalents of \$20.4 million at the end of Q3, with a current ratio of 7.4.

China Natural Gas had expanded to a total of 35 CNG stations, of which 15 were added in Q3. In addition, 1107 residential, industrial and commercial pipeline customers were added during the third quarter. Year-over-year net income growth for 2008 is expected to be 77% and revenue growth to be 92%.

The EPS (ttm) was \$0.48, for a P/E ratio of 6.0. HOLD.

## HLS SYSTEMS INTERNATIONAL

HLS Systems International Limited (NASDAQ: HOLI) is a domestic provider of automation control systems to China's surging nuclear, rail and industrial markets. HLS has developed a series of proprietary high quality, low cost control systems that meet or exceed international standards and is able to effectively compete against the world's leading automation control companies.

With a fiscal year end of 6/30/08, revenues for Q1 (ending 9/30/08) increased 27% to \$37.3 million. Net income was \$6.1 million, as compared to a net loss for Q1 of the previous year. Diluted EPS was \$0.14. The Company's backlog at 9/30/08 was \$200.7 million, up 79% YOY. Cash and cash equivalents at the end of the quarter was \$77 million and the current ratio was 2.7.

Management reports that contracts are increasing in average size and length. Work is beginning under the high-speed rail contracts announced earlier in 2008 and revenues are expected to increase as work ramps up. As the Company successfully executes current rail and subway contracts, HLS expects it will be awarded larger, higher margin contracts. In the nuclear segment, work continues with their JV partner, China Guangdong Nuclear Power Group, to implement plant control systems for a nuclear plant. This segment of the Company's business is expected to grow significantly in the next few years.

At quarter's end, the EPS (ttm) was \$0.36, for a P/E multiple of 7.8. HOLD.

## CHINA NORTH EAST PETROLEUM

China North East Petroleum Ltd. (OTCBB: CNEH) engages in the exploration and production of crude oil in Northern China. They have an arrangement with the Jilin Refinery of PetroChina Group to buy their crude oil production. As of September 30, 2008, the Company operated 218 producing wells, and expected to have a total of 240 by year-end, for a total crude oil production of 623,000 barrels in 2008.

For the nine months ended 9/30/08, CNEH recorded net sales of \$44.1 million, up 274% YOY, and net income of \$12.0 million, up 295% YOY. The diluted EPS at 9/30/08 was \$0.61. The current ratio was .975, however the cash flow from operating activities was \$16.4 million. Crude oil production for the nine months rose 153% YOY to 422,788 barrels.

In August 2008 CNEH registered 4.8 million shares of restricted common stock underlying warrants issued in February 2008 as part of a \$15 million debt offering.

CNEH only drills wells with proven reserves studied and verified by PetroChina and sells all its crude oil to PetroChina. Fully diluted EPS for 2007 was \$0.21 and projected to be \$0.74 in 2008 (at 9/30/08 the ttm EPS was \$0.70). At current EPS (ttm), the P/E multiple is below 3.0. We're HOLDing.

## CHINA YONGXIN PHARMACEUTICALS

China Yongxin Pharmaceuticals, Inc. (OTCBB: CYXN) is a manufacturer, distributor and retailer of pharmaceuticals in Northeastern China. With a history of wholesale distribution of pharmaceuticals and medical appliances, the Company has expanded to the operation of retail drugstores and the cultivation, processing and manufacture of ginseng-based products. Operations are based in Changchun City, Jilin Province. Currently, the Company has 93 chain pharmacies through five subsidiaries.

For the nine months ended 9/30/08, CYXN reported net revenues of \$45.0 million (up 22% YOY) and a net income of \$3.1 million (up 40% YOY). Diluted EPS was \$0.10 (down slightly YOY due to a 48% increase in weighted average shares outstanding). The current ratio was 1.8 at 9/30/08.

In June 2008, CYXN announced the signing of a 10-year franchise agreement "with one of the world's largest drug chains based out of the United States." Per the agreement China Yongxin has exclusive rights to the brand in Jilin Province, and plans to convert one half of existing stores to branded stores within three years. In December, CYXN announced that it had entered into a new growth phase and had established a Retailing Chain Management Head Office to uniformly manage its growing base of chain drugstores.

The diluted ttm EPS is \$0.24 at 9/30/08, for a P/E mul-

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multiple of 0.30 at current share prices. With a solid growth rate and cash in the bank, it's significantly undervalued. HOLD while we dig into this one over the next 30 days.

### SINOENERGY CORPORATION

Sinoenergy Corporation (NASDAQ: SNEN) is a manufacturer of compressed natural gas (CNG) vehicle and gas station equipment as well as an operator of retail CNG stations in China, as well as manufacturing kits for vehicle fuel conversion. The Company also designs and manufactures a wide variety of pressure containers for use in different industries including the petroleum and chemical industries, the metallurgy and electricity generation industries, and the food and brewery industries.

For the nine months ended June 30, 2008 (FYE is September 30), SNEN reported revenues of \$26.7 million (up 133% YOY), and net income of \$9.2 million (up 170% YOY). Diluted EPS for the period was \$0.54. At 6/30/08, the current ratio was 1.23. Management's guidance for FY 2008 includes revenue of \$37-\$38 million, net income of \$12.2-\$12.4 million, and a diluted EPS of \$0.62-\$0.63. Based on current stock prices, the P/E multiple would be approximately 3.8.

SNEN's board includes Mr. Xiangdong Yang, who has an MBA from The Wharton School of Business, and is a partner of the lead investor in the Company's \$30 million note financing which closed in late 2007. Also on the Board is Mr. Anlin Xiong, with an MS in Electrical Engineering from the University of Illinois, and an MS in physics from West Virginia University; he brings experience as a senior manager in manufacturing. In October, Mr. Ming Shiao Sheng was hired as CFO. He has a degree in Biology and Chemistry from Dartmouth College, and has a wide-ranging venture capital and entrepreneurial background in international investments, M&A, and corporate management.

As of Q3, SNEN was on track to have a total of 28 retail CNG filling stations in the city of Wuhan by the end of calendar year 2008. Construction of another 10 stations was expected to begin in 2008 and begin operations in 2009.

SNEN has experienced management and high YOY growth. HOLD or add to your position at current market.

### CHINA INDUSTRIAL WASTE MANAGEMENT

China Industrial Waste Management, Inc. (OTCBB: CIWT) engages in the collection, treatment, disposal and recycling of industrial wastes principally in Dalian and surrounding areas. It's subsidiary, Dongtai, treats, disposes of and/or recycles many types of industrial wastes, and recycled waste products used by customers as raw material to produce chemical and metallurgy products. In addition Dongtai treats or disposes of industrial waste through incineration, burial or water treatment, and provides environmental protection services, technology consultation, pollution treatment services, waste management design processing services, waste disposal solutions, waste transportation services, onsite waste management services, and environmental pollution reme-

diation services.

In October, CIWT completed a \$3.96 million equity financing to add to working capital. The financing included management incentives for meeting performance targets such as net income of \$4.5 million for YE 2008 and \$7.25 million for YE 2009. For the nine months ending 9/30/08, the Company recorded revenues up 53% YOY to \$5.4 million and net income up 64% YOY to \$3.6 million. Diluted EPS was \$0.27. The current ratio was 1.76. With mid-December trading around \$1.70/share, and a \$0.38 (ttm) EPS, the P/E multiple is 4.4.

One of the Company's municipal build-operate-transfer (BOT) waste water treatment facilities began operations in Q3, with another BOT unit expected to begin operations in Q1 2009. At current prices, it's still in BUYING range.

### CHINA GREEN AGRICULTURE

China Green Agriculture, Inc. (OTCBB: CGAG) produces and distributes humic acid based liquid compound fertilizer, and produces and sells approximately 10,000 metric tons of over 100 different kinds of fertilizer products per year. All of the Company's fertilizer products are certified by the PRC government as green products and suitable for growing Grade AA 'green' foods, also known as green products that contain little or no chemical materials. China Green Agriculture currently markets its fertilizer products to private wholesalers and retailers of agricultural farm products in 27 provinces in the PRC.

In the first quarter (ending 9/30/08) of its fiscal year, the Company reported net revenues of \$8.9 million, up 24% YOY. The increase in revenues was primarily attributed to an increase in sales volume of humic acid organic liquid compound fertilizer, driven by an expanded sales network and greater product offerings. Net income for the quarter was \$3.5 million, or \$0.19 per fully diluted share. This was down 13% YOY due primarily to an increase in taxes as the Company came off of its tax-exempt status. At the end of the quarter CGAG had \$17 million in cash and cash equivalents and a current ratio of 2.3, with no long-term debt. Management states that it expects additional capital expenditures of roughly \$8 million in the second and third quarters for the completion of expanded facilities.

The first two stories of a projected three story facility are complete and engineering work, including equipment installation, is scheduled to be finished by February 2009. Trial production is scheduled for March through July. When the expansion project is complete, CGAG will have the capacity to produce up to 50,000 metric tons of fertilizer per year, up from its current capacity of 10,000 metric tons per year. In early November, China Green Agriculture announced the rollout of four new products under the Company's high-end brand. The new products will be distributed via the Company's 486 individual distributors covering 27 provinces in China.

China Green Agriculture anticipates strong growth as the government implements several innovative green agricultural policies. With an improved distribution network, increased production capacity and leading-edge production technology, the Company believes it is well positioned to steadily increase its customer base and become the green fertilizer leader.

## PORTFOLIO REVIEW

Continued

The EPS (ttm) is \$0.34, with a P/E ratio of 9.7. CGAG has moved to the top of our BUYing range, but you can still add it to your portfolio on pullbacks.

### CHINA BIO ENERGY

China Bio Energy Holdings Group Co., Ltd. (OTCBB: CBEH) is a distributor of petroleum-related products including gasoline, diesel, and heavy oil. It is also a manufacturer and distributor of bio-diesel fuel. CBEH's bio-diesel fuel is made at its 100,000-ton capacity facility in Shaanxi province. Feedstock consists of naturally growing non-edible seeds and waste oil from restaurants. CBEH's bio-diesel can be used as a complete substitute for petro-diesel or can be blended with petro-diesel at any ratio. The Company's products are sold via its own dis-

tribution network, which includes four fuel depots in Shaanxi that have both road and rail access.

During the first nine months of 2008, sales reached \$156.9 million, up 142% YOY, while net income rose 240% YOY to \$22.1 million. Diluted EPS was \$0.68. The Company ended the quarter with \$522,013 in cash and a current ratio of 5.9 with no long-term debt. However, in October CBEH raised \$9 million by issuing a non-interest bearing debenture that is convertible into Series B Convertible Preferred Stock. In addition, the Company received \$5 million from the exercise of approximately 1.7 million warrants. This \$14 million cash injection positions the Company to take advantage of possible acquisition opportunities related to bio-diesel assets in China, as well as allowing CBEH to expand its bio-diesel production.

The EPS (ttm) is \$1.45, resulting in a P/E ratio of 2.3. BUY up to \$5.00.

### CHINA CLUB OPEN PORTFOLIO POSITIONS

Company/Symbol	(Current Price as of 12/30/08 Close)			
	Date	Price	Current Price	Recommended Action
Guangshen Railway (NYSE:GSH)	Nov-04	\$ 15.65	\$ 18.90	HOLD
Cogo Group (NASDAQ: COGO) **	Sept-05	\$ 5.23	\$ 4.86	HOLD
Harbin Electric, Inc. (NASDAQ:HRBN)*	Oct-05	\$ 4.70	\$ 7.77	HOLD
Jinpan International Ltd. (NASDAQ:JST)*	Dec-05	\$ 6.00	\$ 14.95	HOLD
American Oriental Bioengineering, Inc. (NYSE: AOB)	Jan-06	\$ 5.25	\$ 6.30	HOLD
Flextronics International Ltd. (NASDAQ: FLEX)	Feb-06	\$ 11.25	\$ 2.51	HOLD
GigaMedia, Ltd. (NASDAQ: GIGM)	Mar-06	\$ 5.82	\$ 5.31	HOLD
Fushi Copperweld, Inc. (NASDAQ: FSIN)*	April-06	\$ 3.30	\$ 5.56	HOLD
China Medical Technologies, Inc. (NASDAQ: CMED)*	Sept-06	\$ 22.04	\$ 18.85	HOLD
China Shen Zhou Mining & Resources, Inc. (AMEX: SHZ)	Feb-07	\$ 3.70	N/A	SELL
SORL Auto Parts, Inc. (NASDAQ: SORL)	Mar-07	\$ 8.75	\$ 1.39	HOLD
China Fire & Security Group, Inc. (NASDAQ: CFSG)	April-07	\$ 4.50	\$ 7.00	HOLD
Shengtai Pharmaceutical, Inc.(OTCBB:SGTI)	May-07	\$ 2.50	\$ 1.40	HOLD
China Housing & Land Development, Inc. (NASDAQ: CHLN)	July-07	\$ 4.55	\$ 0.96	BUY
ChinaCast Education Corporation (NASDAQ: CAST)	Oct-07	\$ 4.55	\$ 2.30	HOLD
Universal Travel Group (OTCBB: UTVG)	Nov-07	\$ 3.06	\$ 0.84	BUY
China Education Alliance Inc. (OTCBB: CEUA)	Feb-08	\$ 3.35	\$ 1.22	BUY
E-House (China) Holdings (NYSE:EJ)	Mar-08	\$ 13.15	\$ 7.68	HOLD
China Natural Gas, Inc. (OTCBB: CHNG)	May-08	\$ 5.30	\$ 2.75	HOLD
HLS Systems International Limited (NASDAQ: HOLI)	May-08	\$ 6.00	\$ 3.03	HOLD
China North East Petroleum Ltd. (OTCBB: CNEH)**	June-08	\$ 4.93	\$ 2.75	HOLD
China Yongxin Pharmaceuticals, Inc. (OTCBB: CYXN)	July-08	\$ 0.70	\$ 0.06	HOLD
Sinoenergy Corporation (NASDAQ: SNEN)	Sept-08	\$ 6.26	\$ 2.35	HOLD
China Industrial Waste Management, Inc. (OTCBB: CIWT)	Sept-08	\$ 3.50	\$ 1.60	BUY
China Green Agriculture, Inc. (OTCBB: CGAG)	Oct-08	\$ 2.45	\$ 3.30	BUY on pull backs
China Bio Energy Holdings (OTCBB: CBEH)	Nov-08	\$ 4.00	\$ 3.75	BUY
SinoHub, Inc. (OTCBB: SIHI)	DEC-08	NEW	\$ 2.35	BUY up to \$3.50

We sold half our holdings, to lock in some nice gains and continue to monitor our positional strategy. \*\* Average