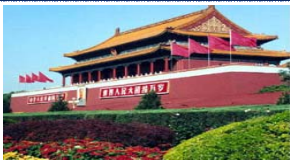


# SISR Strategic International Securities Research Inc.

An Independent Research Firm



## International Markets: China

Philip L. Miller – 646-415-9141

November 26, 2007

Chief Strategist

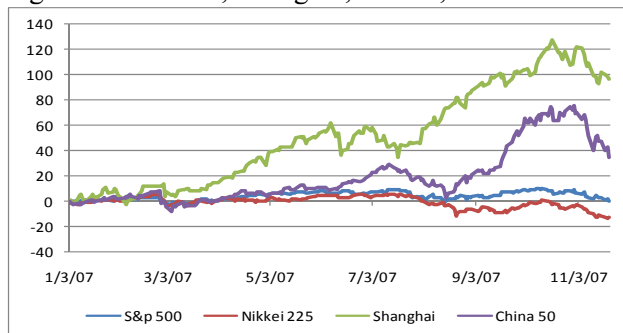
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SI China 40 Index – Large Cap

### The Strategic International China 40

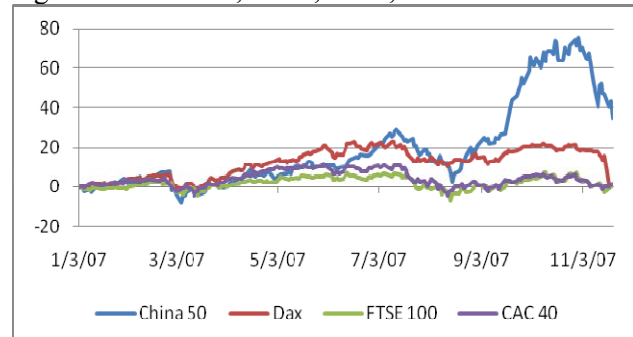
Stock of the Week: Initiation Report SISR China 40 Index

Figure I: China 50, Shanghai, Nikkei, S&P 500: Y-D



Source: Reuters, SISR Inc.

Figure II: China 50, DAX, CAC, FTSE: Y-D



Source: Reuters, SISR Inc.

### Introduction: Initiation Report for The Strategic International China 40

#### I. Description of Strategic International China 40 Index:

The Strategic International China 40 Index consists of the 40 largest companies defined by their market capitalization, that are traded on the NYSE, AMEX, or Nasdaq exchanges, and whose primary business initiates in the Peoples Republic of China. We have not included any companies that are traded Over-the-Counter on OTCBB or Pink Sheets. We also have not included companies that have been trading for less than one year on these exchanges. Our minimum market capitalization for this index is 500 million dollars. We will be initiating a small cap index in the coming weeks that will have a market capitalization requirement of 50 million to 500 million dollars.

The index will be rebalanced only once per year with the first rebalance occurring on December 31, 2008, unless a company gets delisted from the exchange. This index is designed for the benefit of institutional investors for the purpose of providing information on the relative performance and growth expectation of companies, Sectors, and Industries in the SI China 40 index, as it compares to their Sector and Industry comparables in the S&P 500. In time we will divide each of the components into their

respective sectors and begin to evaluate the relative performance of these companies to their U.S. counterparts for growth, risk differential, and valuation differential adjusting for volatility risk. Our objective is to provide the institutional investor with information on sectors and industries of how Chinese companies in the same sector are valued. It is our belief that different risk and valuation components influence the pricing of these stocks.

SISR is an independent research firm that has no ties to the banking community and as a consequence this index, **IS IN NO WAY INFLUENCED BY INVESTMENT BANKING CONSIDERATIONS.** It is our objective to maintain our independence and provide our readers with information regarding particular companies, sectors, and industries from an investment perspective. Having said this we believe that the information provided in these forthcoming reports, can be used by the banking community as a means for them to better understand the valuation process of Chinese companies. We will show that there are differences in the valuation process between U.S. and Chinese companies traded on U.S. exchanges. Our objective is to understand the valuation metrics, to the extent that there may be different from their U. S. Sector and Industry counterparts. We will attempt to highlight differences in the way that these companies are valued, and to project their future earnings. We are not implying that these companies do not follow traditional valuation methods; we simply believe that there are different factors that must be considered in the metrics of analysis.

## II. The Strategic International China 40 Index

### A. International Comparisons

Table I presents 8 indices. We compare the SI China 40 to the major indices of the world. Figures I and II above show this in picture format. As we can see from the table all the indices have been down significantly over the past 4 weeks with Shanghai and our China 40 having the best YTD performance.

Table I: International Comparisons based on the Closing Price of November 23, 2007

INDEX	CLOSING PRICE	1 - WEEK % CHANGE	4 - WEEK % CHANGE	YTD % CHANGE
SISR CHINA 40 - United States	1373.05	-6.74	-19.82	37.31
S&P 500 -United States	1440.70	-1.24	-6.16	1.70
SHANGHAI - China	5032.13	-7.03	-13.88	88.08
HANG SENG -Hong Kong	26541.09	-3.35	-15.97	32.54
NIKKEI 225 -Japan	14888.77	-3.30	-8.57	-14.20
DAX - Germany	7608.96	-0.28	-4.63	15.41
FTSE 100 - England	6262.10	2.31	-6.62	-0.40
CAC 40 - France	5521.17	0.26	-4.87	0.05

Source: Reuters, SISR Inc.

These Chinese indices also exhibit the greatest volatility, an issue that we will be taking up in much greater detail in the coming weeks.

## B. The Strategic International China 40

Table II presents the 40 companies that comprise the SI China 40. The index is an equal weight index because as is evident from the table the top two companies have a market cap of 682 billion dollars. The other 38 companies have a total market cap of 469 billion, which is less than the top two companies. We chose not to make arbitrary index categorizations so we decided to equal weight the index. In addition most investors take a specific dollar weight in their positions either a full positions a partial position, generally a position in a company not an index. Also, we **do not expect that this index will be representative of the Chinese economy**, unlike the S&P 500 where market cap weighting makes sense.

Table II: Summary Table of the SI China 40 Ranked by Market Capitalization

COMPANY NAME	SYMBOL	MARKET CAP In Millions	SECTOR	INDUSTRY
PETROCHINA CO ADS	PTR	341,210	Basic Materials	Major Integrated Oil and Gas
CHINA MOBILE LIMITED	CHL	341,290	Technology	Wireless Communications
CHINA PETRO & CHEM	SNP	121,960	Basic Materials	Independent Oil & Gas
CNOOC LTD ADS	CEO	73,780	Basic Materials	Independent Oil & Gas
CHINA TELECOM CP LTD	CHA	60,580	Technology	Telecom Services
CHINA LIFE INS CO	LFC	57,800	Finance	Life Insurance
CHINA UNICOM LTD	CHU	26,060	Technology	Wireless Communications
CHINA NETCOM GRP LTD	CN	19,670	Technology	Telecom Services
HUANENG POWER INTL	HNP	11,720	Utilities	Foreign Utilities
BAIDU.COM, INC.	BIDU	10,680	Technology	Internet Information Providers
SUNTECH POWER HLDGS	STP	9,490	Technology	Diversified Electronics
YAZHOU COAL MNG CO	YZC	8,380	Basic Materials	Industrial Metals & Minerals
HUTCHISON TEL ADS	HTX	7,070	Technology	Telecom Services
ALUMINUM CP CHIN ADS	ACH	6,960	Basic Materials	Aluminum
FOCUS MEDIA HOLDING	FMCN	6,690	Services	Advertising Agencies
GUANGSHEN RAIL CO LT	GSH	4,950	Services	Railroads
CHINA SOUTH AIR LTD	ZNH	4,590	Services	Airlines
SINOPEC SHANGHAI ADS	SHI	4,420	Basic Materials	Synthetics
MINDRAY MEDICAL INTL	MR	3,910	Healthcare	Medical Instruments & Supplies
CTRIP.COM INTERNATIONAL	CTDC	3,650	Services	Consumer Services
CHINA EASTERN AIRLINE	CEA	3,630	Services	Major Airlines
SINA CORPORATION	SINA	2,500	Technology	Internet Software & Services
NEW ORIENTAL EDUCATI	EDU	2,520	Services	Educational & Training Services
NETEASE.COM ADS	NTES	2,330	Technology	Internet Information Providers
SHANDA INTERACTIVE	SNDA	2,310	Technology	Internet Software & Services
SOHU.COM INC	SOHU	1,830	Technology	Internet Information Providers
SEMICONDUCTOR MFG IN	SMI	1,790	Technology	Semiconductor Integrated Circuits
GLOBAL SOURCES LTD	GSOL	1,270	Technology	Internet Information Providers
HOME INNS & HOTELS	HMIN	1,160	Services	Lodging
CHINA MEDICAL TECH	CMED	1,110	Healthcare	Medical Instruments & Supplies
TRINA SOLAR LTD ADR	TSL	1,100	Technology	Semiconductor Specialized
AMERICAN ORIENTL BIO	AOB	807	Healthcare	Biotechnology
ASIA SATELL TELE ADS	SAT	747	Technology	Diversified Communication Services
COMTECH GROUP	COGO	685	Industrial Goods	Diversified Machinery
THE9 LIMITED	NCTY	606	Services	Gaming Activities
CDC CORPORATION CL-A	CHINA	585	Technology	Internet Software & Services
SOLARFON POWER HOLDI	SOLF	565	Technology	Semiconductor Specialized
CHINA FINANCE ONLINE	JRJC	566	Technology	Internet Information Providers
51JOB, INC.	JOBS	525	Services	Staffing& Outsourcing Services
NAM TAI ELECTRONICS	NTE	503	Technology	Diversified Electronics

Source: Reuters, SISR Inc.

November 26, 2007

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## C. The Strategic International China 40 Sorted by Sector, Industry and Market Capitalization

Table III presents the SI China 40 sorted by Sector and Industry. In the coming weeks we will concentrate extensively on these different sectors. From the table we can see that there are 6 basic material companies, 3 oil and gas companies; 6 internet companies; 5 communication companies, but only 1 finance company. Most of the big banks in China have listed in Hong Kong. The list contains many significant companies in China, however it is not fully representative of the Chinese economy as noted above, and for this reason and the market capitalization imbalance we have decided to equal weight this index.

Table III: Summary Table of the SI China 40 Sorted by Sector, Industry and Market Capitalization

COMPANY NAME	SYMBOL	MARKET CAP In Millions	SECTOR	INDUSTRY
PETROCHINA CO ADS	PTR	341,210	Basic Materials	Major Integrated Oil and Gas
CHINA PETRO & CHEM	SNP	121,960	Basic Materials	Independent Oil & Gas
CNOOC LTD ADS	CEO	73,780	Basic Materials	Independent Oil & Gas
YAZHOU COAL MNG CO	YZC	8,380	Basic Materials	Industrial Metals & Minerals
ALUMINUM CP CHIN ADS	ACH	6,960	Basic Materials	Aluminum
SINOPEC SHANGHAI ADS	SHI	4,420	Basic Materials	Synthetics
CHINA LIFE INS CO	LFC	57,800	Finance	Life Insurance
MINDRAY MEDICAL INTL	MR	3,910	Healthcare	Medical Instruments & Supplies
CHINA MEDICAL TECH	CMED	1,110	Healthcare	Medical Instruments & Supplies
AMERICAN ORIENTL BIO	AOB	807	Healthcare	Biotechnology
COMTECH GROUP	COGO	685	Industrial Goods	Diversified Machinery
FOCUS MEDIA HOLDING	FMCN	6,690	Services	Advertising Agencies
GUANGSHEN RAIL CO LT	GSH	4,950	Services	Railroads
CHINA SOUTH AIR LTD	ZNH	4,590	Services	Airlines
CTRIIP.COM INTERNATIONAL	CTDC	3,650	Services	Consumer Services
CHINA EASTERN AIRLINE	CEA	3,630	Services	Major Airlines
NEW ORIENTAL EDUCATI	EDU	2,520	Services	Educational & Training Services
HOME INNS & HOTELS	HMIN	1,160	Services	Lodging
THE9 LIMITED	NCTY	606	Services	Gaming Activities
51JOB, INC.	JOBS	525	Services	Staffing& Outsourcing Services
CHINA MOBILE LIMITED	CHL	341,290	Technology	Wireless Communications
CHINA TELECOM CP LTD	CHA	60,580	Technology	Telecom Services
CHINA UNICOM LTD	CHU	26,060	Technology	Wireless Communications
CHINA NETCOM GRP LTD	CN	19,670	Technology	Telecom Services
BAIDU.COM, INC.	BIDU	10,680	Technology	Internet Information Providers
SUNTECH POWER HLDGS	STP	9,490	Technology	Diversified Electronics
HUTCHISON TEL ADS	HTX	7,070	Technology	Telecom Services
SINA CORPORATION	SINA	2,500	Technology	Internet Software & Services
NETEASE.COM ADS	NTESE	2,330	Technology	Internet Information Providers
SHANDA INTERACTIVE	SNDA	2,310	Technology	Internet Software & Services
SOHU.COM INC	SOHU	1,830	Technology	Internet Information Providers
SEMICONDUCTOR MFG IN	SMI	1,790	Technology	Semiconductor Integrated Circuits
GLOBAL SOURCES LTD	GSOL	1,270	Technology	Internet Information Providers
TRINA SOLAR LTD ADR	TSL	1,100	Technology	Semiconductor Specialized
ASIA SATELL TELE ADS	SAT	747	Technology	Diversified Communication Services
CDC CORPORATION CL-A	CHINA	585	Technology	Internet Software & Services
CHINA FINANCE ONLINE	JRJC	566	Technology	Internet Information Providers
SOLARFUN POWER HOLDI	SOLF	565	Technology	Semiconductor Specialized
NAM TAI ELECTRONICS	NTE	503	Technology	Diversified Electronics
HUANENG POWER INTL	HNP	11,720	Utilities	Foreign Utilities

Source: Reuters, SISR Inc.



## D. The Strategic International China 40 Market Performance

Table IV presents some performance data for the SI China 40, based on the closing price of November 23, 2007. We report 1 week, 4 week, and YTD % change, 1 day volume, 3 month average volume, 52 week range, PE ratio and EPS. These are some of the performance measures which in coming weeks will be analyzed and evaluated in a more systematic manner. We will concentrate on performance and valuation relative to U.S. companies in similar Sectors and Industries, while striving to access what drives the valuation metrics.

Table IV: Summary Table of the SI China 40 Market Performance:  
Based on the close of November 23, 2007

Company	Symbol	Closing Price	1-week % Change	4 - week % Change	YTD % Change	1 - Day Volume	Avg Volume (3M)	52 Wk Range	PE Ratio	EPS
PETROCHINA CO ADS	PTR	184.80	-2.69	-25.02	38.97	516949.00	1481240.00	108.20 - 266.81	17.11	10.80
CHINA MOBILE LIMITED	CHL	84.05	-2.51	-16.90	10.64	1121025.00	3494900.00	39.20 - 104.00	34.17	2.46
CHINA PETRO & CHEM	SNP	134.49	-2.83	-10.64	50.94	292635.00	808938.00	70.00 - 178.91	12.69	10.60
CNOOC LTD ADS	CEO	173.70	6.39	-12.18	90.52	376108.00	597382.00	77.95 - 218.20	19.11	9.09
CHINA TELECOM CP LTD	CHA	70.98	6.26	-16.02	29.05	164046.00	472977.00	42.25 - 98.66	16.13	4.40
CHINA LIFE INS CO	LFC	77.53	-7.53	-23.34	39.77	1420297.00	2286360.00	34.70 - 106.75	11.54	6.72
CHINA UNICOM LTD	CHU	18.78	-4.67	-15.97	26.46	443400.00	1693210.00	11.00 - 24.60	38.33	0.49
CHINA NETCOM GRP LTD	CN	56.01	6.67	-7.86	1.41	75900.00	321786.00	37.90 - 68.97	11.07	5.06
HUANENG POWER INTL	HNP	41.14	3.42	-16.31	14.00	303990.00	410577.00	31.03 - 57.50	13.36	3.08
BAIDU.COM, INC.	BIDU	308.86	-1.95	-12.60	152.32	3227786.00	7090580.00	92.80 - 429.19	148.99	2.07
SUNTECH POWER HLDGS	STP	68.05	-1.97	23.37	100.15	2426872.00	3805330.00	27.28 - 75.64	73.49	0.93
YAZHOU COAL MNG CO	YZC	85.01	-0.36	-19.26	101.73	56080.00	132940.00	33.86 - 116.73	41.47	2.05
HUTCHISON TEL ADS	HTX	21.95	-2.44	3.10	-42.39	283300.00	211485.00	17.34 - 43.00	0.78	28.30
ALUMINUM CP CHIN ADS	ACH	51.49	-6.53	-30.64	109.65	686170.00	2528060.00	19.65 - 90.95	4.26	12.10
FOCUS MEDIA HOLDING	FMCN	50.35	-14.95	-11.76	43.04	1007340.00	3316610.00	32.78 - 66.30	45.12	1.12
GUANGSHEN RAIL CO LT	GSH	34.55	-0.32	-18.51	-0.72	19450.00	76378.50	24.90 - 45.59	24.93	1.39
CHINA SOUTH AIR LTD	ZNH	54.79	4.34	-25.58	145.04	100300.00	246665.00	18.24 - 99.70	28.10	1.95
SINOPEC SHANGHAI ADS	SHI	55.89	-9.56	-29.70	7.63	74150.00	92290.80	44.22 - 102.77	12.42	4.50
MINDRAY MEDICAL INTL	MR	37.00	3.29	-4.17	49.13	567153.00	914745.00	21.11 - 45.19	57.10	0.65
CTRIP.COM INTERNATIONAL I	CTDC	54.60	-10.09	2.08	67.13	275452.00	826380.00	26.57 - 62.87	83.23	0.66
CHINA EASTERN AIRLINE	CEA	76.81	1.19	-28.60	189.30	13900.00	66229.20	18.28 - 147.30	N/A	-4.20
SINA CORPORATION	SINA	44.00	-6.04	-22.21	47.30	599697.00	1272610.00	27.57 - 59.27	49.94	0.88
NEW ORIENTAL EDUCATI	EDU	69.98	-7.36	-17.77	98.86	213850.00	495055.00	29.80 - 92.15	62.82	1.11
NETEASE.COM ADS	NTES	19.23	1.21	-3.46	-1.64	512588.00	1406740.00	13.45 - 24.00	15.95	1.21
SHANDA INTERACTIVE	SNDA	31.50	-11.79	-19.97	51.81	675451.00	1819220.00	16.00 - 40.71	13.60	2.32
SOHU.COM INC	SOHU	48.61	-4.35	-2.62	92.44	484325.00	1516640.00	20.94 - 63.53	71.80	0.68
SEMICONDUCTOR MFG IN	SMI	4.77	-7.02	-21.80	-39.24	89300.00	246374.00	4.68 - 8.30	N/A	-0.05
GLOBAL SOURCES LTD	GSOL	28.76	2.17	-15.76	87.85	91710.00	342422.00	11.45 - 38.89	39.34	0.73
HOME INNS & HOTELS	HMIN	33.43	-9.82	-30.74	-14.28	411326.00	534137.00	24.00 - 50.08	170.56	0.20
CHINA MEDICAL TECH	CMED	38.66	-7.20	-13.24	45.28	1206426.00	762928.00	21.65 - 48.25	25.95	1.49
TRINA SOLAR LTD ADR	TSL	37.11	-30.65	-33.57	96.77	1641407.00	1882870.00	17.06 - 73.06	35.08	1.06
AMERICAN ORIENTL BIO	AOB	11.35	-0.70	-9.56	-6.35	635285.00	1614280.00	6.83 - 14.48	19.91	0.57
ASIA SATELL TELE ADS	SAT	19.29	-6.13	-2.18	9.35	100.00	6112.31	17.50 - 29.00	12.69	1.52
COMTECH GROUP	COGO	17.64	-4.29	-16.79	-4.03	161784.00	392702.00	13.60 - 22.50	33.28	0.53
THE9 LIMITED	NCTY	21.56	0.14	-26.59	-33.82	260141.00	501492.00	19.56 - 52.44	16.28	1.32
CDC CORPORATION CL-A	CHINA	5.82	-2.51	-17.91	-39.63	1039868.00	2661510.00	5.21 - 11.45	N/A	-0.02
SOLARFUN POWER HOLDI	SOLF	10.93	-14.61	-15.14	-0.55	229238.00	672149.00	8.22 - 17.69	N/A	N/A
CHINA FINANCE ONLINE	JRJC	21.98	-23.68	-37.54	341.37	534862.00	2223280.00	3.95 - 47.68	366.33	0.06
51JOB, INC.	JOBS	18.17	-5.36	-16.77	4.55	16464.00	79006.20	14.02 - 25.44	34.74	0.52
NAM TAI ELECTRONICS	NTE	11.42	-0.95	-16.58	-21.02	65500.00	265263.00	11.02 - 17.00	8.86	1.29

Source: Reuters, SISR Inc.

## **Certification:**

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### **Stock Rating:**

1 – Recommended List – The stock has our highest recommendation and is expected to outperform the average equal weighted expected total return of the overall Market irrespective of sector. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.

3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.

4 – Underweight – The stock is expected to under-perform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.

5 – Rating Suspended – The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

### **Sector Ratings:**

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2 – Positive – The sector fundamentals and valuations are improving with a positive second derivative.

3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.

4. Negative – The sector fundamentals and valuations are negative with a negative second derivative.

5 – Rating Suspended – The rating and sector targets have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when SISR Inc. is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Price Chart:**

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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4. compensation for certain services
5. types of client relationships
6. managed/co managed public offerings in prior periods
7. directorships
8. market making and/or specialist role.

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