

Erik Bethel (ebethel@chinavest.com)

86-21-6323-2255 x818

Patrick Kelly (pkelly@chinavest.com.cn)

86-21-6323-2255 x810

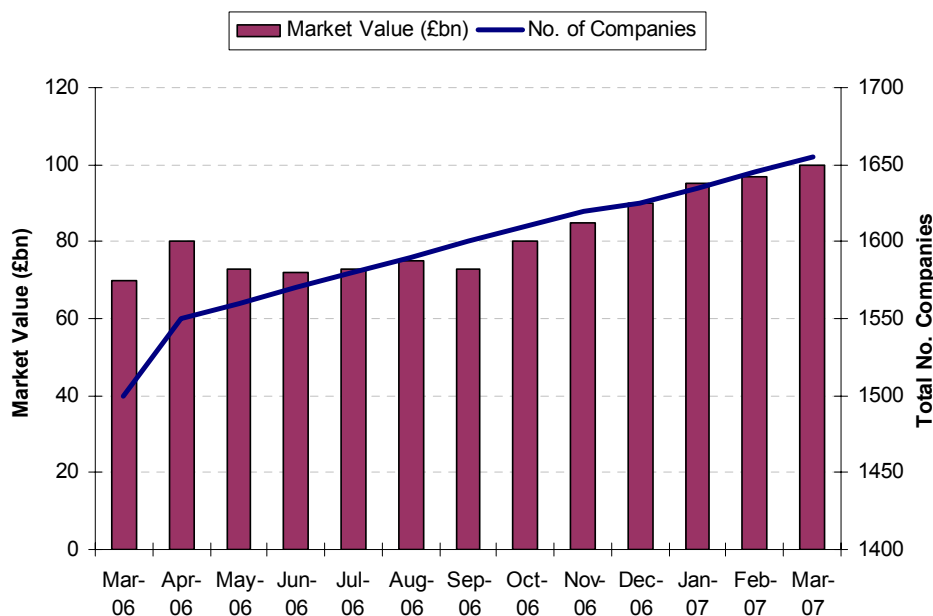
Alternative Listings

An Introduction to London's AIM Market

In 1995, the London Stock Exchange created the Alternative Investment Market ("AIM"), a stock market oriented towards emerging growth companies. Though technically part of the London Stock Exchange, AIM is a distinct market with its own unique rules and structure. Firms that list on the AIM market can be based in any country and operate in any industry sector. Generally, firms listing on AIM choose the British pound as their listing currency. However, some firms prefer to list in U.S. dollars or other currencies. Firms from over 26 countries have chosen to list on AIM, including an increasing number from China.

Today, some 1,650 companies trade on AIM with a total market capitalization of about £100 billion (approximately US\$200 billion). By comparison, the NASDAQ's market capitalization is roughly US\$4 trillion and the NYSE is around US\$20 trillion. From the end of 1995 to date, AIM's market capitalization has grown at a compounded annual growth rate (CAGR) of roughly 80%. Figure 1 below provides recent market cap statistics and number of AIM-listed firms.

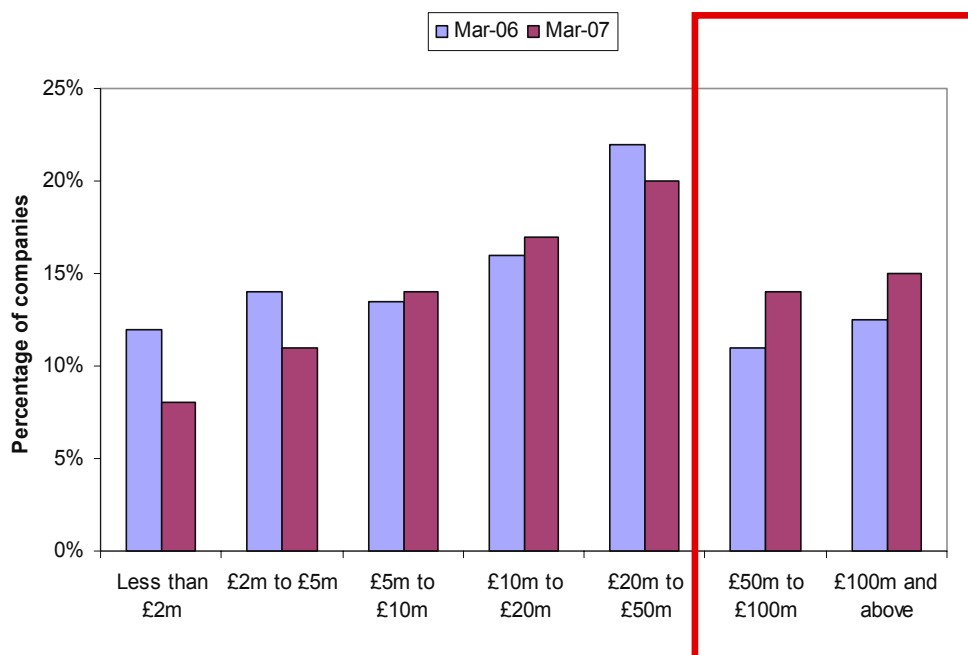
Figure 1: Market Cap and Number of AIM Companies



Source: London Stock Exchange

The AIM market encompasses a wide range of sectors—mining, oil & gas, industrials, consumer, technology, financials, healthcare, etc. Most of the AIM-listed companies are emerging growth companies. Approximately 30% of the firms have stock market values greater than £50 million (US\$100 million). While many of the firms are small, the red outline in Figure 2 indicates that over the past year, the size of the firms trading on the AIM market has grown.

Figure 2: Distribution of AIM-Listed Companies by Market Cap



Source: London Stock Exchange

Listing Requirements

Unlike NASDAQ or the NYSE, the AIM market does not have a required list of financial criteria in order to conduct an IPO. The key listing requirements are:

- That the firm seeking to IPO hire a Nominated Advisor (“Nomad”)
- An Admission Document (similar to a prospectus) signed off by its Nomad
- Accounts audited to IFRS not more than 9 months old
- A Nomad for the entire period it is listed
- A website with up-to-date key company information

A Nomad is a qualified sponsor approved by the AIM market. There are approximately 80 Nomads, including most of the bulge bracket investment banks and a host of smaller financial advisors. A Nomad stakes its reputation on the fact that its sponsored company is “appropriate” for listing. If the Nomad decides to stop sponsoring a company (due to poor performance or other reasons), the company must either find another Nomad or it will be de-listed.

Listing and Recurrent Costs

Listing on AIM generally costs 7-10% of the funds raised. The outlay for a similar listing in Hong Kong is roughly the same; however, regulators require that the listed company open a physical (i.e. a "real" as opposed to a mailbox) office in Hong Kong. Considering the cost of labor, lease rates, etc., this could become a significant expenditure for an emerging growth company.

Recurring AIM fees run approximately £100,000 a year, of which £50,000-70,000 will be paid to the Nomad. These fees are comparable to Hong Kong. NASDAQ, of course, requires compliance with Sarbanes-Oxley. This means annual compliance fees can run upwards of US\$1 million.

Summary Advantages of AIM Listing

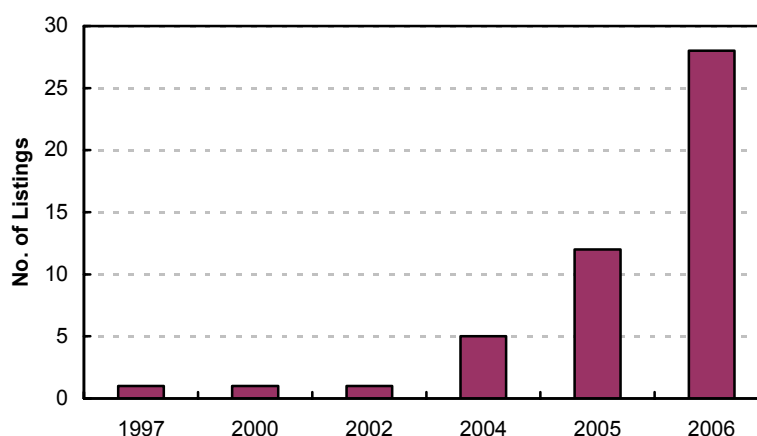
For Chinese firms debating between a U.S., Hong Kong or AIM listing, we provide a series of reasons why, in addition to the cost arguments, it might make sense to look to AIM:

- The listing process is simple, fast and not subject to delays by regulators
- AIM provides access to a broad and deep pool of capital, supported by world-class research (in fact, more money is now managed in London than New York)
- AIM has more exposure to global investment and is supported more top research than any other growth market
- Regulation is straightforward. The responsibility lies with the listed company's Nomad. This produces fast, non-bureaucratic results

Chinese companies on AIM

AIM has become an influential alternative market for Chinese companies seeking to list overseas. As of June 20, 2007, over 50 Chinese companies have listed on AIM. Chinese companies comprise roughly the same cross section of industry groups as the AIM market in general.

Figure 3: No. of Chinese Companies Listing on AIM



Source: London Stock Exchange

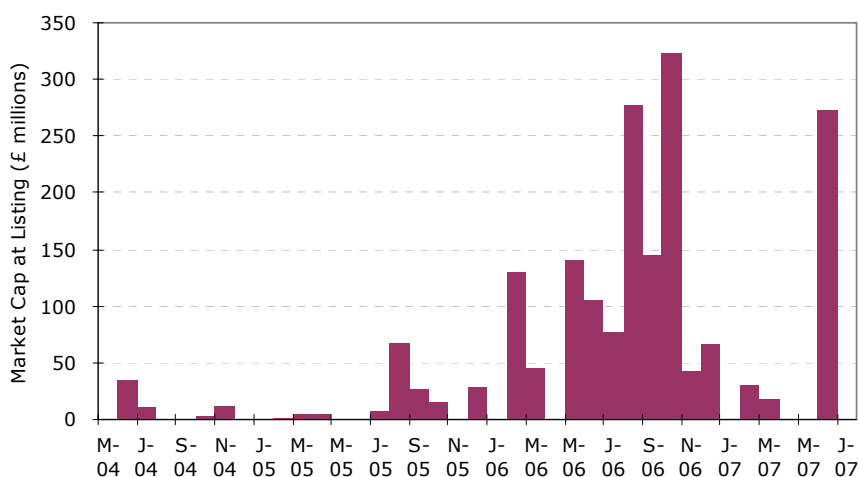
The average dimensions of Chinese IPOs on AIM have changed over the years. Until 2005, the average IPO size was about £30 million. However, that size tripled in 2006, a year that saw 28 Chinese listings. This phenomenon is probably due to AIM investors and Nomads becoming more conservative and focusing on more established companies. The 28 Chinese IPOs listed in 2006 make up more than half of the total Chinese listings in the past 10 years.

So far in 2007 only three Chinese companies have listed on AIM. This is clearly below the 2006 listing pace. One reason for this may be increased Chinese regulatory difficulties related to new rules surrounding offshore listings. Another may be the relatively lackluster performance of Chinese companies on AIM over the past year as compared to the rest of the market. Yet another factor could relate to the fact that the Chinese domestic stock market is an extremely viable option with (as of the past 12-18 months) an exceptional performance record.

This doesn't mean, however, that Chinese companies' enthusiasm for AIM has disappeared. In fact, at least four new listings are scheduled within the near future. Details on these companies can be found in Appendix C.

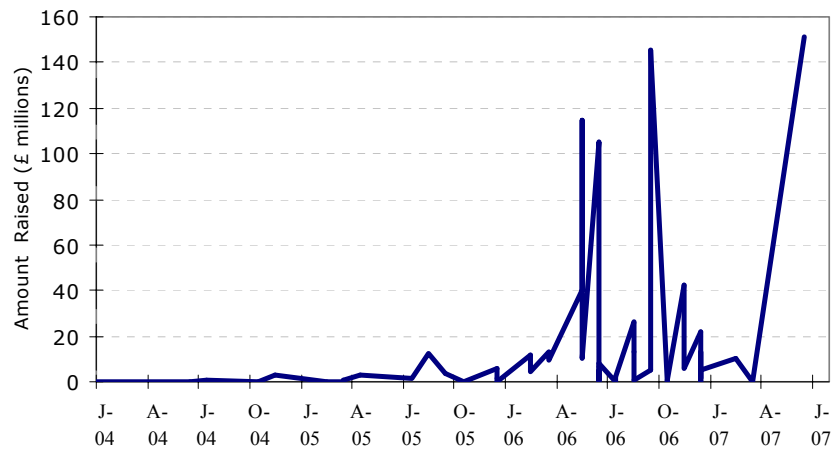
Figure 4 below shows the market capitalization (at time of listing) of Chinese AIM listed companies while Figure 5 shows how much money was raised in AIM IPOs by Chinese companies over time. Both graphs conclude that over time, larger Chinese companies are listing on AIM.

Figure 4: Chinese AIM Listings (Market Cap over Time)



Source: ChinaVest Research and London Stock Exchange

Figure 5: Chinese AIM Listings (Money Raised over Time)

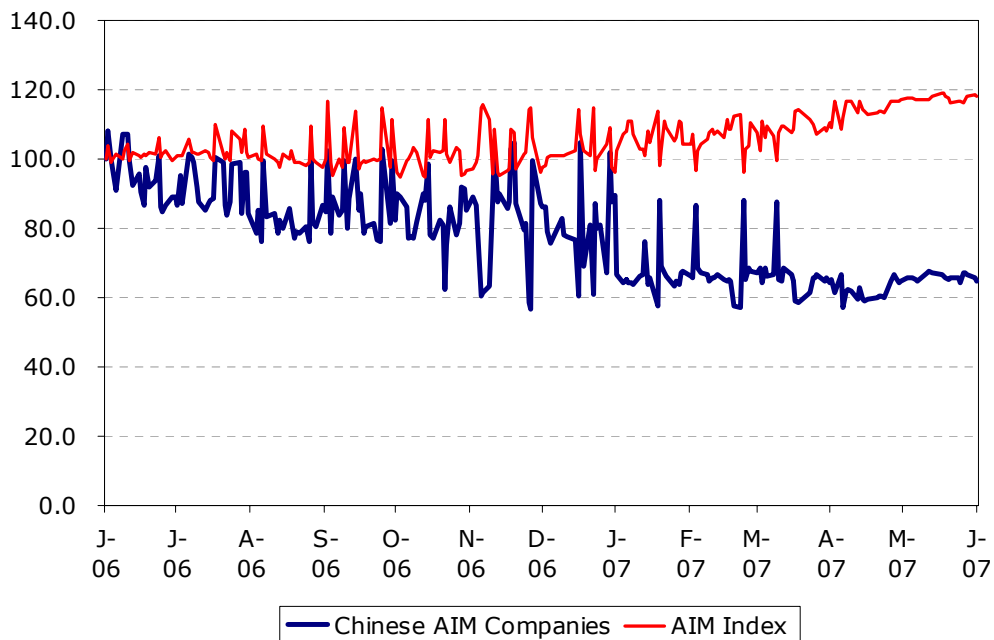


Source: ChinaVest Research and London Stock Exchange

Performance of Chinese AIM Listed Companies

It is interesting to note that between June 2006 and June 2007, a period in which the Shanghai and Shenzhen stock markets have had exceptional performances, Chinese companies listed on AIM have actually *underperformed* the AIM index. In that period, Chinese companies lost about 40% of their collective market value. Below we graph the performance of Chinese companies versus the performance of the AIM index for the past year. We believe that some of this is attributable to the fact that historically, Nomads have not brought good quality Chinese companies to market.

Figure 6: Chinese Companies vs. AIM



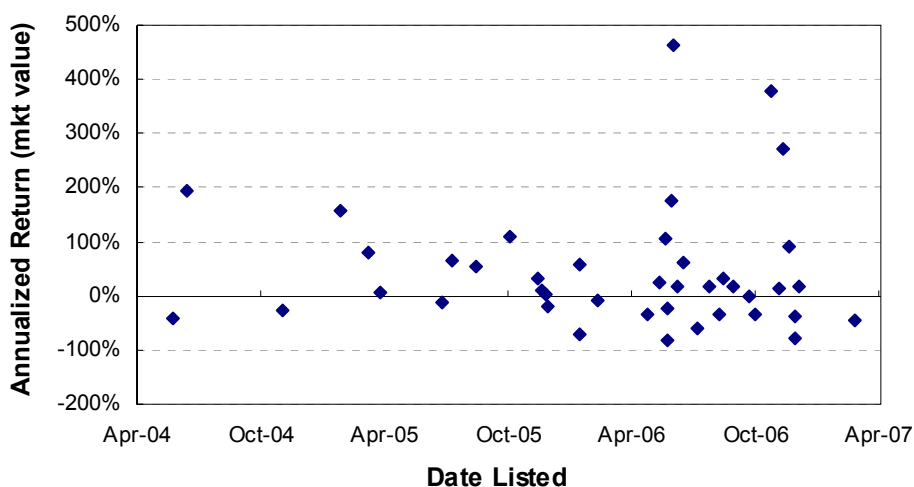
Source: CV Research (Arithmetic average of all AIM Chinese companies that listed before June 2006)

In Appendix A, we provide all of the Chinese AIM-listed companies and their annualized returns, by market value, to date. We also ran linear regression analyses of the Chinese AIM-listed companies in order to account for what factors constitute a “successful” listing. We define success as those companies who have a positive annualized return since listing. The variables we used in our regression were: date of listing and size of market cap at listing. We also examined cash flow and earnings margins as well as the Nomad who sponsored the listing, but didn’t perform regression analysis due to statistical integrity constraints (in other words, there wasn’t enough data to make the regression meaningful).

Date Listed

We analyzed whether the date in which a Chinese firm listed correlated with annualized returns. In all regression analyses to follow, we only focused on companies that are currently listed on AIM, not companies that have de-listed or been suspended for long periods of time (which results in a statistical problem known as “survivor bias”). We also removed statistical “outliers” from the data including the top four annualized returns (Haike Chemical, ResponzeTV, ReneSola, and Prosperity Minerals) and the earliest two listings (Griffin Mining and ARKO). All six data points were extreme outliers. This left us with 42 data points for this test.

Figure 7: Date Listed vs. Annualized Reutrns

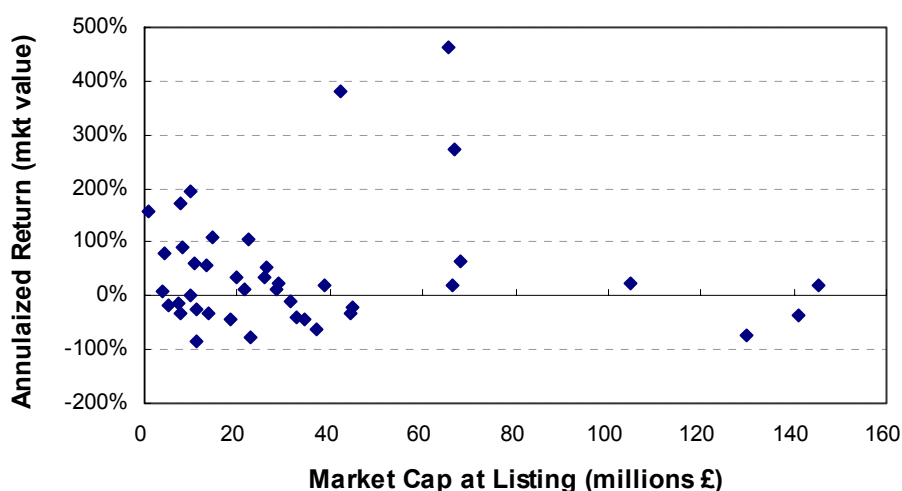


Looking at the statistics, we cannot conclude that there is a correlation between the listing date and annualized returns. This seems to be corroborated by the correlation coefficient, which is less than 0.01 (a correlation coefficient of 1 indicates total correlation—therefore 0.01 means there isn’t even a semblance of a correlation). Glancing at the graph above clearly demonstrates that while *more* Chinese firms listed in 2005 and 2006, there exists little to no relationship between the date in which the firm listed and whether its market value has gone up or down since listing. We also ran the regression test again after adding back all outliers and found that still no statistically significant relationship exists. The correlation coefficient does improve, but remains very low at 0.17.

Market Cap at Listing

Next we examined the company's market cap at listing (market cap is the firm's "stock market value" calculated by multiplying the stock price by the total shares outstanding) versus annualized returns. The logic behind this test is that larger firms might be more operationally mature and they tend to have more liquidity. In this test, we wanted to examine if stocks with smaller or larger market caps at time of listing performed better. We again removed outliers. For annualized returns we removed the same four points as in the last analysis. For market cap at listing, we removed two others (Asian Growth Properties and Green Dragon Gas).

Figure 8: Market Cap at Listing vs. Annualized Returns



Again, we cannot conclude that there is a correlation between the two variables. The correlation coefficient is less than 0.003 (essentially zero). When running the regression test after adding back all outliers, there is still no statistically significant relationship. The correlation coefficient is 0.08.

Cash Flow

A logical test, and one that seems relevant for *any* stock, is how much cash the company produces. We define cash flow as: cash flow from operations less capital expenditures. We wanted to see if the cash a company produced was related to its annualized performance. Unfortunately and surprisingly, the London Stock Exchange does not release AIM-listed companies' financial information to the public, and does not require the companies to publish it themselves. While this was bad news for our regression analysis, we were told by the LSE that on August 20, 2007, the LSE will require the public disclosure of financial information. We believe that when this occurs, and more transparent information is available to the public, Chinese AIM listed stocks will benefit from higher trading volume and potentially an increase in valuation. We plan to publish a postscript to this report in several months in which we provide more comprehensive financial data on Chinese AIM-listed companies once those financial statements become available.

Without enough reliable information, we could not conduct a meaningful statistical analysis. However, we did look at some of the companies which did provide basic earnings information. Some companies with solid earnings performed well, as expected. For instance, *Central China Goldfields*' 2006 profit margin was 31%. The company has achieved annualized returns of 81% since its March 2005 listing.

We postulate, however, that even if we had the necessary data to conduct the statistical analysis, the results may not reveal a correlation. There have been multiple cases in which companies posted seemingly solid earnings, but its market value has fallen. The opposite is also true, with loss-making companies enjoying solid stock market returns. One example is *Tinci Holdings*. Even with close to a 10% profit margin in 2006, the company's market value has fallen 61% since its IPO. On the other side of the coin, we have *EBT*. The company has small retail areas in supermarkets and hypermarkets (e.g. Wal-Mart, Carrefour) where it sells mobile phones. The company has yet to post a profit, yet its market value has seen annualized returns of 53% since its September 2005 listing. EBT's increase in market cap could be due to investors' growth perceptions about the Chinese mobile telephony market. China has (at the time of publication of this report) almost 500 million mobile customers.

One would expect a company's earnings and cash flows to correlate with the positive and negative changes in its market cap. However, we suspect that AIM's status as a market for growth companies accounts for the fact that this correlation may be weaker. For example, some concept plays without earnings, like EBT, can do well because investors believe in the business model. The market values of other companies with seemingly solid earnings may fall, as investors may not be satisfied with the company's growth story after going public. Perhaps as more Chinese companies list on AIM and the market becomes more transparent, the correlation between earnings/cash flows and performance in the market will increase.

Nomad

Ideally, we could examine whether there is a correlation between a company's Nomad and its returns. However, 23 different Nomads represented the companies in our sample, with some Nomads representing only one company. Unfortunately, there are too many variables within the sample to use regression analysis and claim a result with any statistical integrity.

Statistics aside, when looking at the Nomads one does notice that some have performed better than others. Evolution led the way and Collins Stewart has also performed consistently well (see Appendix B). When combining all the Chinese companies Evolution brought to AIM, the weighted average annualized return is 165%. There are also Nomads that represent companies whose market values have generally dropped since listing. Due to variance in reputation and past performance between Nomads, the choice of Nomad may affect the valuation investors will give a Chinese company.

In conclusion, after using linear regression analysis to examine how certain factors may affect market values, we cannot, at this point, say that any statistically significant trends exist. After August 20, 2007, when all AIM-listed companies will be forced to publish their financial statements, more data will be available. Without statistically significant results, however, this and all other correlational or causal conclusions must be classified as speculative.

Comparison of Stock Exchanges

As mentioned earlier, some of the AIM market's most attractive features include time to market (i.e. it is faster to list on AIM), relatively few regulatory requirements and lower administrative fees. In other markets, these factors prevent many companies from listing. The most difficult markets with respect to time, fees and regulation, are those in the United States. And recently, the regulatory requirements for listing on the Stock Exchange of Hong Kong are becoming increasingly onerous as well. In comparison to other stock exchanges, companies that are growing but aren't yet profitable are still able to list on AIM. For a growth company with a good business model AIM provides liquidity, access to capital and legitimacy.

ChinaVest and PIPA

ChinaVest is an American-run merchant bank based in Shanghai. It has operated in greater China since 1981. As the oldest foreign merchant banking firm on the mainland, ChinaVest has extensive experience raising capital for Chinese firms of all sizes. ChinaVest also specializes in valuation, research and due diligence—key elements in selecting the most-suitable companies for which to raise money.

PIPA is based in Hong Kong, and specializes in helping companies raise funds in the equity capital markets. PIPA has a deep and broad network of investors in both Europe and Asia. Its staff has over three decades of experience bringing companies to market in Asia and the UK. Together, ChinaVest and PIPA are the ideal start-to-finish execution team to bring a high-quality Chinese company to AIM.

Conclusion

Over 25% of AIM-listed companies come from outside of the UK. China's increasing presence is augmenting AIM's global profile as investors are eager to take part in a wide range of Chinese growth companies. And for certain Chinese companies, AIM is the most viable market. With AIM's structure tailored for growth companies and its exposure to these global investors, we believe that it represents a suitable alternative to NASDAQ, Hong Kong and other stock markets.

Appendix A: Annualized Returns

Name	Code	Date listed	Market cap (in millions £)		Annualized Return (%+/-)
			When listed	20-Jun-07	
Amazing Holdings	AMZ.L	12-Dec-2005	28.3	33.0	10.6%
ARC Capital Holdings	ARCH.L	26-Jun-2006	65.6	360.0	464.4%
ARKO	AKO.L	13-May-2002	44.5	6.0	-32.4%
Asian Citrus	ACHL.L	3-Aug-2005	68.1	175.2	65.4%
Asian Growth Properties	AGP.L	16-Oct-2006	323.5	319.1	-2.0%
Bodisen Biotech	BODI.L	6-Feb-2006	129.7	22.9	-71.9%
Central China Goldfields	GGG.L	30-Mar-2005	4.1	15.3	80.8%
China Biodiesel	CBI.L	30-Jun-2006	38.6	45.6	18.8%
China Central Properties	CCPL.L	8-Jun-2007	273.0	291.4	N/A*
China Goldmines	CGM.L	7-Feb-2006	13.5	24.9	56.5%
China Medstar	CMDS.L	30-Nov-2006	21.5	23.0	13.1%
China Shoto	CHNS.L	6-Dec-2005	26.0	40.5	33.4%
China West Investment (from Hemisphere Properties)	CHWI.L	15-Jun-2004	34.7	6.7	-41.9%
Cosmedia Group Holdings	CGHL.L	28-Dec-2006	66.3	72.0	18.8%
Creon Corporation	CRO.L	22-Dec-2005	5.0	3.7	-17.7%
EBT	EBT.L	5-Sep-2005	26.5	56.6	52.9%
Financial Payment Systems	FPS.L	16-Jun-2006	11.0	1.8	-83.0%
Geong International	GNG.L	23-Jun-2006	7.8	21.3	174.0%
GMO	GMO.L	6-Sep-2006	20.0	25.1	33.2%
Green Dragon Gas	GDG.L	17-Aug-2006	277.8	320.1	18.4%
Griffin Mining	GFM.L	30-Jun-1997	29.0	213.4	22.1%
GruppeM Investments	GRP.L	18-Feb-2005	1.0	8.7	157.6%
Haike Chemical	HAIK.L	14-Feb-2007	30.7	76.3	1292.4%
Hutchison China Meditech	HCM.L	19-May-2006	140.9	89.1	-34.4%
IGM	IGMG.L	24-May-2006	40.2	14.0	-62.5%
Jarlawy	JWY.L	18-Jul-2005	7.3	5.6	-12.9%
LED International Holdings	LED.L	23-Oct-2006	13.7	10.4	-33.8%
Leyshon Resources	LRL.L	26-Oct-2005	14.5	48.6	108.7%
London Asia Capital	LDC.L	15-Jun-2006	44.9	34.5	-23.0%
Macau Property Opportunities Fund	MPO.L	5-Jun-2006	105.0	132.0	24.6%
Origo Sino-India	OSI.L	21-Dec-2006	32.6	25.6	-38.4%
Pacific Alliance Opportunity Fund	PAX.L	21-Sep-2006	145.4	165.3	18.7%
Pixel Interactive	PIXL.L	10-Jul-2006	10.6	16.5	59.8%
Prince Catering and Management	PRNC.L	31-Aug-2006	7.9	5.8	-32.5%
Prosperity Minerals	PMHL.L	24-May-2006	19.0	198.1	787.0%
RC Group	RCG.L	5-Jul-2004	10.0	245.6	195.0%
ReneSola	SOLA.L	8-Aug-2006	79.4	551.5	837.8%
ResponzeTV	RETV.L	6-Dec-2006	9.2	32.7	964.0%
Sinosoft Technology	SFT.L	6-Mar-2006	31.5	27.7	-9.3%
South China Resources	SCRL.L	18-Apr-2005	4.0	4.6	7.1%
SovGEM	SOV.L	23-Nov-2004	11.4	5.4	-25.5%
Speymill Macau Property	MCAU.L	17-Nov-2006	42.1	106.1	379.9%
Taihua PLC	TAIH.L	14-Dec-2006	8.1	11.4	92.2%
Tianshan Gold	TGF.L	14-Jun-2006	22.3	46.6	106.6%
Tinci Holdings	TNCI.L	31-Jul-2006	37.1	16.1	-61.0%
UniVision Engineering	UVEL.L	19-Dec-2005	9.8	10.1	1.6%
Walcom Group	WALG.L	22-Dec-2006	22.7	10.7	-78.2%
West China Cement	WCC.L	4-Dec-2006	67.0	136.6	271.9%
ZTC telecom	ZTC.L	21-Mar-2007	18.4	15.9	-43.6%

* Annualized return for China Central Properties not calculated as the company had only been listed for nine trading days as of June 20, 2007. With no annualized return, this data point was not available for use in regression analyses

Appendix B: Nomad Information

Name	Nomad	Date Listed
Amazing Holdings	Daniel Stewart	12-Dec-2005
ARC Capital Holdings	Grant Thornton	26-Jun-2006
ARKO	Nabarro Wells	13-May-2002
Asian Citrus	Evolution	3-Aug-2005
Asian Growth Properties	Panmure Gordon	16-Oct-2006
Bodisen Biotech	Charles Stanley	6-Feb-2006
Central China Goldfields	Ruegg	30-Mar-2005
China Central Properties	Deutsche Bank	8-Jun-2007
China Biodiesel	Evolution	30-Jun-2006
China Goldmines	Brewin Dolphin	7-Feb-2006
China Medstar	Evolution	30-Nov-2006
China Shoto	Seymour Pierce	6-Dec-2005
China West Investment (from Hemisphere Properties)	Nabarro Wells	15-Jun-2004
Cosmedia Group Holdings	Collins Stewart	28-Dec-2006
Creon Corporation	Teather & Greenwood	22-Dec-2005
EBT	Evolution	5-Sep-2005
Financial Payment Systems	Daniel Stewart	16-Jun-2006
Geong International	Ruegg	23-Jun-2006
GMO	Corporate Synergy	6-Sep-2006
Green Dragon Gas	Smith & Williamson	17-Aug-2006
Griffin Mining	Collins Stewart	30-Jun-1997
GruppeM Investments	Shore Capital	18-Feb-2005
Haike Chemical	Hanson Westhouse	14-Feb-2007
Hutchison China Meditech	Lazard & Co	19-May-2006
Jarlway	Nabarro Wells	18-Jul-2005
LED International Holdings	Corporate Synergy	23-Oct-2006
Leyshon Resources	Seymour Pierce	26-Oct-2005
London Asia Capital	Seymour Pierce	15-Jun-2006
Macau Property Opportunities Fund	Collins Stewart	5-Jun-2006
Origo Sino-India	Seymour Pierce	21-Dec-2006
Pacific Alliance Opportunity Fund	Grant Thornton	21-Sep-2006
Pixel Interactive	Dawnay Day	10-Jul-2006
Prince Catering and Management	W H Ireland	31-Aug-2006
Prosperity Minerals	Evolution	24-May-2006
RC Group	Corporate Synergy	5-Jul-2004
ReneSola	Hanson Westhouse	8-Aug-2006
ResponzeTV	Evolution	6-Dec-2006
Sinosoft Technology	Hanson Westhouse	6-Mar-2006
South China Resources	Nabarro Wells	18-Apr-2005
SovGEM	Teather & Greenwood	23-Nov-2004
Speymill Macau Property	Smith & Williamson	17-Nov-2006
Taihua PLC	W H Ireland	14-Dec-2006
Tianshan Gold	W H Ireland	14-Jun-2006
Tinci Holdings	Zimmerman Adams	31-Jul-2006
UniVision Engineering	Insinger de Beaufort	19-Dec-2005
Walcom Group	John East & Partners	22-Dec-2006
West China Cement	Insinger de Beaufort	4-Dec-2006
ZTC telecom	Blue Oar Securities	21-Mar-2007

Note: Companies often change Nomads during their listing periods. However, in the chart, we only list the company's original Nomad, i.e. the Nomad that brought it to market. The reason for this stems from the fact that the major listing requirement for AIM is having a Nomad certify that a company is "appropriate" for AIM. The most useful judgment criterion of a Nomad is looking at the performance over time of the companies it deemed "appropriate" to list on AIM.

Appendix C: Upcoming Listings

China Medical System Holdings

China Medical System is planning to raise £10 million in its AIM listing. The company distributes drugs and medical equipment in China and is attempting to develop its own drugs.

Jetion Holdings

Shanghai-based Jetion makes solar cells and solar modules. It plans to raise £30 million in its AIM IPO.

China Real Estate Opportunities

CREO plans to raise £260 million in its upcoming listing. The company will focus on large office, logistics, and retail developments. It hopes to use the proceeds from the offering to purchase seven properties, which would constitute its initial portfolio.

BlueStar SecuTech

The company provides digital video surveillance in China, and plans to raise £11.1 million its AIM listing.