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RATEFINANCIALS NEWS

NYSE-Traded Chinese Companies Have Poor Earnings Quality and Inadequate Governance, RateFinancials Study Warns

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'Government Controlled Entities Masquerading as Independent Public Companies'

Major publicly-traded Chinese companies whose American Depository Shares (ADSs) are traded on the New York Stock Exchange (NYSE) have very poor quality of earnings, inadequate corporate governance standards, and serious accounting related issues, according to a comprehensive study by RateFinancials, Inc., a New York-based forensic research firm specializing in early-warning risk avoidance for institutional clients.

The ten largest NYSE-listed Chinese companies by market capitalization received "Poor," or "Very Poor," ratings for their accounting, quality of earnings, and governance. The study also found that all ten companies are ultimately majority controlled by the People's Republic of China ("PRC"), frequently engage in related-party transactions, make strategic decisions that are not adequately disclosed, and pose potential conflicts of interest.

"Investing in publicly traded Chinese companies at the end of the day is a crapshoot that requires blind and unfounded faith that the PRC will ultimately put the best interests of shareholders ahead of political and other considerations," said Victor Germack, founder and president of RateFinancials. "These companies are government-controlled enterprises masquerading as independent public companies and it is virtually impossible to adequately assess their financial condition given their poor level of disclosures. Given the inherent risks of these companies, it's both surprising and disappointing that they are allowed to trade on the NYSE."

Among some of the highlights of the RateFinancials study:

- **LOW OVERALL RATINGS --** Eight companies received poor or below average overall ratings and only two – China Mobile and Yahzhou Coal Mining – garnered an average rating;

- **POOR QUALITY OF EARNINGS** – The average quality of earnings, which determines 50 percent of RateFinancials' rating, averaged just 7.3 points out of a total of 20 points. PetroChina, the largest market cap in the study, scored a mere three points. One notable exception: China Mobile, which scored a respectable 15 points;

- **VERY POOR GOVERNANCE** – No Chinese company scored higher than one star, which RateFinancials classifies as very poor corporate governance. Five companies were so poor they received no stars. By comparison, the average corporate governance rating assigned to U.S. companies is around three stars and virtually all have received a minimum one star rating;

- **SERIOUS ACCOUNTING AND QUALITY OF EARNINGS ISSUES** – The study identified various common issues including insufficient cash flow from operations to fund future cash requirements and a history of negative working capital. Furthermore the study found improperly low allowances for bad-debts and provisions for inventory obsolescence not keeping pace with inventory growth; indicative of earnings management;

- **NO PROXY STATEMENTS** – None of the publicly traded Chinese companies file annual proxy statements, so they don't make public certain very detailed information typically available pertaining to related party transactions, governance, and compensation. Although 20-F filings of these companies contain some level of detail, they don't have to be filed until six months after their year-end, so the information is usually dated;

- **DIFFERENCES IN ACCOUNTING STANDARDS** - There are major differences and swings in reported net profits and shareholders equity between the International Financial Reporting Standards ("IFRS") used by the Chinese public companies and US GAAP. While the companies explain and reconcile between the two standards, investors must be aware of the key swings.

- **QUESTIONABLE ENGLISH TRANSLATIONS** – The public filings are typically translated from Chinese and are often so poorly written that they cannot be fully understood and raise some questions.

The Chinese companies listed on the NYSE are exempted from the Exchange's standard corporate governance requirements because of a loophole provision for corporations who are "foreign private issuers." These companies are permitted to follow home country practices in lieu of some of the key corporate governance practices required to be followed by U.S. companies listed on the New York Stock Exchange. As a result, their corporate governance practices differ in some major respects from those required to be followed by U.S. companies listed on the New York Stock Exchange. In addition, where more than 50 percent of the shareholder voting power resides with a single entity or individual - the "Controlled Company Exclusion" - the company need not comply with the requirements of certain NYSE listing requirements.

"If the NYSE is serious about maintaining its superior reputation for governance and the quality of its listed companies, it should close its "controlled company" loophole provision, and urge its foreign issuers to comply with higher corporate governance standards," Mr. Germack said.

The study and the individual company reports are for sale to investors. For more information got to www.RateFinancials.com

About RateFinancials

RateFinancials Inc. is a New York-based, independent risk research firm that rates and ranks the financial reporting of U.S. public companies based on their SEC filings, such as 10-Ks, 10-Qs, 8-Ks and other filings. The firm's ratings focus on the quality of earnings, transparency and completeness of financial reporting, and corporate governance. RateFinancials does not speak with company management, as the firm believes the financial reports must speak for themselves. RateFinancials does not make earnings estimates or provide any investment recommendations. The firm was founded in 2002 by experienced investment bankers and equity research analysts, many of whom are Chartered Financial Analysts. For more information visit: www.ratefinancials.com.