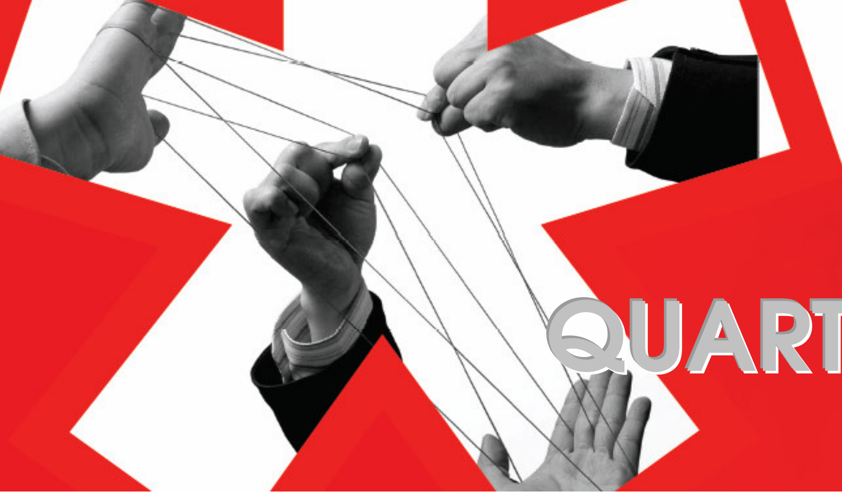


BMI APPRAISALS

QUARTERLY HIGHLIGHT

March 2009
BMI Appraisals Limited

A Critical Review on A-Share Companies under New Accounting Standards

(Extract)

2007 was the first year that listed companies in China started complying with the newly issued China Accounting Standards (hereinafter referred to as "CAS"). For better understanding of the implementation of the new standards, we have conducted an overall review based on the annual reports (as at 30 April 2008) of a total of 1,328 A-share companies in stock exchanges in Shanghai and Shenzhen. We have also established an updated database which is the main source of this review to reflect the actual implementation of CAS in China.

Current Circumstance of CAS in China

i. Fair Value Measurements in Financial Statements

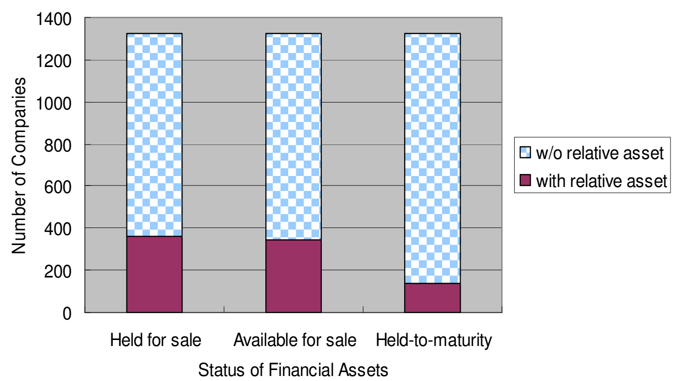
The adoption of fair value measurements makes the newly issued CAS comparatively different from the former one. Fair value has been applied into 17 accounting standards, which can be noticeably found in aspects of financial instruments, investment property, debt restructuring, assets impairment, leases and hedge, etc.

Here we have completed a statistical analysis related to financial instruments and investment property of how fair value has been applied in the listed companies.

a) Financial Instruments

According to the annual reports of 1,328 listed companies in China, all of them have adopted fair value measurements under CAS in classifying financial instruments and liabilities, and disclosed the initial measurement and subsequent measurement in explanatory notes. There are 362 companies holding financial assets held for sales, 345 companies holding available-for-sale financial assets and 140 companies holding held-to-maturity investments, representing 27%, 26% and 11% of the 1,328 listed companies respectively.

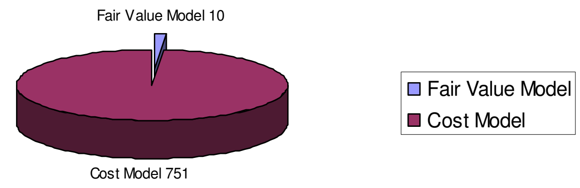
Figure 1: Financial Assets held by Listed Companies in China in 2007



b) Investment Property

The accounting standard for investment property is a brand new standard which has incorporated fair value measurement. For investment property of which the fair value can be proved to be measured sustainably and reliably, fair value accounting can be used in its subsequent measurement. There are 761 companies holding investment properties, amounting to 57% of the 1,328 listed companies. A majority of those companies have used the cost measurement model, with only ten companies adopting fair value accounting for subsequent measurement, constituting 1.13% in the overall industry.

Figure 2: Model used for Investment Property in Listed Companies



Among those ten companies which have used fair value accounting for subsequent measurements in investment properties, five of them have clearly stated in the explanatory notes that they have used asset valuations for measurements while the rest of them have relied on asset transaction prices in the market for fair value measurement.

ii. Provision for Assets Impairment

According to the newly issued CAS, there are a total of 14 standards relating to impairment which include provision for bad debt, provision for inventory valuation, provision for available-for-sale financial assets, provision for held-to-maturity investment, provision for impairment of long-term equity investment, provision for impairment of investment property, provision for impairment of fixed assets, provision for impairment of project material, provision for impairment of construction in progress, provision for impairment of a productive biological asset, provision for impairment of oil and gas assets, provision for impairment of intangible assets and provision for impairment of goodwill.

For impairment of fixed assets, intangible assets and goodwill, CAS has standardized them by using the newly-added standard of assets impairment (CAS 8). On the other hand, other standards for assets are used in impairment of investment property, consumptive biological assets, assets of construction contract, financial assets and unproved mining areas adopting fair value accounting.

According to the annual reports of 1,328 listed companies, the number of companies involving in traditional impairment items such as provision for bad debt, provision for inventory valuation and provision for impairment of fixed assets were comparatively higher than the number of companies involving in newly-added impairment items, such as goodwill.

Table 1: Provision for Impairment in various Listed Companies

No.	Provision for Impairment	Number of Companies	% in Relation of All Companies
1	Bad debt	1,306	98.34%
2	Inventory valuation	939	70.71%
3	Available-for-sale financial assets	20	1.51%
4	Held-to-maturity investment	17	1.28%
5	Long-term equity investment	414	31.17%
6	Investment property	48	3.61%
7	Fixed assets	627	47.21%
8	Construction in progress	136	10.24%
9	Project material	7	0.53%
10	Productive biological asset	5	0.38%
11	Oil and gas assets	0	0.00%
12	Intangible assets	115	8.66%
13	Goodwill	60	4.52%
14	Others	19	1.43%

Underlying Issues of CAS

i. Inadequate Disclosure of Financial Statements

Some companies have failed to disclose all their major transactions nor deals and significant accounting policies and accounting estimates as required by CAS. Even if they have revealed such information, some of which were insufficient and incomplete, without complying with CAS requirements on disclosure material information. Most companies were neither disclosing the concrete details and procedures as well as the calculation of relevant amounts in their major transactions in detail, nor suitably disclosing enough information in relation to their recoverable amounts and fair values of their fixed assets, which in turn lowered the credibility of accounting information.

ii. Further Standardization of Fair Value

The new CAS has given guideline to fair value measurement, but in practice it is more complicated than expected, especially in the application of valuation techniques for giving no instructions to choose valuation models and relevant assumptions.

On the one hand, the confusing disclosure on progress of the fair value determination in explanatory notes by listed companies reflected the inconsistency and differentiation of standardization of fair value. On the other hand, the disclosed financial statements have shown that some companies have determined their fair values by randomly chosen models. The new standards require that the fair value measurements should be consistent for the same transaction. However, different companies in practice have used different valuation methods such as active market prices, agreed transaction prices and valuation results for the same transaction in its subsequent measurements. This inconsistency has harmed the reliability and relevance of those fair values.

iii. Fair Value is not Comprehensively Implemented

Under the new CAS, all companies with goodwill generated from mergers and acquisitions are required to conduct goodwill impairment test at the end of every financial year. However, about 17% of those 1,223 companies with goodwill have failed to conduct goodwill impairment test or disclosed insufficient information, which affected the results of the implementation of provision of assets impairment.

(A full version of the above can be obtained upon request.)