

Jinpan International Ltd.

Ticker Symbol: JST



Greetings from LFS

Dear Clients and Friends:

Here is my quarterly newsletter, *Invest*. The goal of *Invest* is to keep you abreast of what is happening in the financial market, inform you about new investments and keep you informed about your current investments. I welcome any questions, comments or suggestions.

Sincerely,

Douglas Ruth

Invest

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Jinpan International Ltd (JST) is a pure growth stock. Historically, Lenox Financial Services (LFS) has focused on buying value stocks. LFS started purchasing JST on October 12, 2006, and believes that JST will be a core holding for many years to come.

On October 25 2006, a comprehensive report on JST was completed. The report is available to you via the LFS website located at (www.lenoxfinancialservices.com) or a copy can be mailed to you.

This January 2007 *Invest* newsletter focuses on updating the October JST report and also provides insight into the marketing of stocks (The List), momentum investing and the need to be patient and resist the opportunity to over-analyze the volatility of stock prices.

Value Investing:

LFS emphasizes value investing. This is a consistent theme highlighted in our printed marketing material and on our website. We follow the value investing method originated by Benjamin Graham.



Key elements include:

- Analyzing stocks one at a time.
- Viewing stocks as small parts of a business that is for sale.
- Valuing each stock by determining what a rational businessperson would pay to buy the company.

- Purchasing a stock when it sells well below what the rational businessperson would pay means that it is undervalued. Shares can be bought as a bargain with appreciation potential and a margin of safety.
- These principles hold true in all types of markets and for all businesses.

The best value stocks are often companies that have only one small problem that needs to be resolved. If the resolution takes a long time, that means investors can often purchase the stock at a relatively low price.

A recent example is Lifetime Brands (LCUT). LCUT had an obsolete warehouse. Once the new warehouse was up and running the stock skyrocketed.

Value stocks are sometimes explained as organizations that are somehow “broken.” The challenge is to identify what broke and determine if it is worth it to fix it. In the case of LCUT, building a new warehouse fixed the company and the stockholders prospered.

A Growth Stock:

Growth companies are organizations that are increasing their sales and earnings at an above-average rate. By this definition, JST is a growth stock.

JST Revenue and Earnings
(In \$Millions Except Per Share)

	1998	1999	2000	2001	2002	2003	2004	2005	1 st 6 Mos. 2006	2006 ¹	2007 Goal ¹
Sales	\$9.9	\$12.9	\$18.0	\$23.3	\$29.4	\$34.0	\$42.5	\$53.0	\$35.0	\$80.9	\$100-\$116
Earnings	\$1.6	\$1.7	\$2.0	\$2.8	\$3.0	\$3.3	\$3.5	\$4.5	\$2.7	\$6.8	\$8.0-\$9.3
Per share	\$0.26	\$0.27	\$0.32	\$0.44	\$0.48	\$0.50	\$0.53	\$0.68	\$0.40	\$1.02	\$1.20-\$1.40

1. Projected.

In my October 25, 2006 report I provided an overview of JST and the reasons to buy the stock. Ultimately, in the case of JST, I believe a buy and hold strategy is the right course of action. I encourage you to ride out the peaks and valleys and to be a long-term investor with this opportunity.

Overview:



Jinpan International Limited (JST) is the second largest manufacturer and distributor of cast resin transformers in China. In 2005, the majority of company sales occurred in Beijing, Guangdong, Zhejiang and northeastern China. JST is a growth company that benefits from globalization:

- The stock trades on the American Stock Exchange (AMEX), which offers world investors, liquidity; relatively low trading costs, and regulated and honest accounting standards.
- The company’s products are relatively labor-intensive so the products are manufactured in China where wages are low.

JST manufactures transformers, which are used as part of daily living:

- Electric utilities have a grid, which distributes power to each customer.

Generally, the power that is distributed along the grid is at a higher level than what we can use in our homes.

- The transformer steps down the electricity from the grid so that the power enters our homes at the correct rate.

Reasons to Buy the Stock:

JST is a stock that an investor could buy and keep for a very long time. Some of the reasons follow. The company:

- Manufactures a “necessity of life” product – transformers.
Has been recognized for producing quality products.
- Was rated as the top brand in China through a governmental rating system.
- Sells its products throughout the world.
- Has several competitive advantages.
- Is coming to America. JST is in the final stages of receiving Underwriters Laboratories (UL) approval for their product. Approval is expected to occur in the fourth quarter 2006.

The conditions are right for JST to thrive:

- China is the economic power of the 21st century.
- China is fast becoming the world’s largest manufacturer.
- The wages of Chinese workers are increasing.

Workers in China are moving from agricultural jobs in rural areas to manufacturing jobs in cities. Specifically Beijing, Shanghai and Guangzhou are experiencing rapid population growth. This change is similar to the occupational shift in the U.S. during the 20th century when workers left farms to work in industry. The increase in manufacturing and



wages causes greater consumption of electricity. Higher consumption of electricity means that more transformers are needed. The opportunity to sell more transformers in China is virtually unlimited.



Patience and Over-analysis:

The performance of JST stock has been extremely volatile. This can be seen by looking at a regular *Barron’s* weekly feature called “Winners and Losers.”

AMEX Biggest % Movers

WINNERS – Week ending 12-09-06:			
Name	Close	Change	% Change
HT	6.42	+3.57	+125.3
AZU	15.01	+7.36	+96.2
TP	3.37	+1.14	+51.1
CVV	6.20	+1.60	+34.8
XNN	3.40	+0.78	+29.8
▶ JST	23.70	+5.36	+29.2
IAX	3.40	+0.72	+26.9
VIR	7.75	+1.63	+26.6
CAV	3.95	+0.75	+23.4
BVX	9.05	+1.60	+21.5
TLX	7.60	+1.05	+16.0

WINNERS – Week ending 12-16-06:			
Name	Close	Change	% Change
SLP	4.35	+1.06	+32.2
MEH	11.72	+2.47	+26.7
IMM	8.47	+1.50	+21.5
MCF	23.81	+4.19	+21.4
▶ JST	28.75	+5.05	+21.3
KSW	6.50	+1.00	+18.2
CFW	5.73	+0.86	+17.7
NK%	7.05	+1.05	+17.5
CGLA	8.40	+1.10	+15.1
CGN	2.85	+0.37	+15.0
IOX	2.29	+0.29	+14.4

LOSERS – Week ending 12-23-06:			
Name	Close	Change	% Change
▶ JST	21.85	-6.90	-24.0
HRT	23.42	-5.68	-19.5
MMG	3.42	-0.75	-18.0
SIF	5.32	-0.94	-15.0
APY	1.83	-0.32	-14.9
OTT	19.69	-3.43	-14.8
RNO	2.43	-0.42	-14.7
DIL	5.75	-0.92	-13.8
BTJ	19.88	-3.17	-13.8
MDM	3.41	-0.54	-13.6
UPI	2.10	-0.31	-12.9

Why is JST so Volatile?

There are three reasons for JST’s volatility:

1. The List.
2. Momentum Investing.
3. Over-Analysis.

1. The List:

An interesting commentary on society is the number of lists we make. When 2006 ends, we summarize the year's events by making lists. Some of these lists include the top 10:



- Movies.
- News stories.
- Selling cars.
- Job opportunities.

Simple analysis of lists allows us to learn facts quickly. For example:

- If we are going to rent a movie, chances are we will like one we select from the Top 10 list.
- If a person is unemployed and cannot find employment in his or her own field, he or she may be able to be retrained and enter the job market where there are the most opportunities.

Most lists are reasonably accurate. They offer the reader a quick summary of virtually any topic.

Investors Business Daily (IBD), a large publication with a loyal group of readers, prepares a list called the *IBD 100*. This list highlights the 100 stocks that have the best potential in the publication's opinion. JST is on the IBD list – a fact that greatly increases the company's profile.

2. Momentum Investing:

Momentum investing has been a popular strategy on and off for decades and is used in many other parts of life. For example, gamblers often use momentum as a guide when placing bets.

From the following table, we can see that both the L.A. Lakers and Portland have momentum. The L.A. Clippers, however, seem to be in the middle of a terrible losing streak. They have lost their last 10 games and, in fact, their losing streak stretches to 13 games.

Even casual gamblers can deduce that placing a bet on the Lakers or Portland to win their next game is probably a safe one but betting on the Clippers is probably not a good idea. Note that the NBA Western Conference statistics from several years ago include each team's performance for the past 10 games.

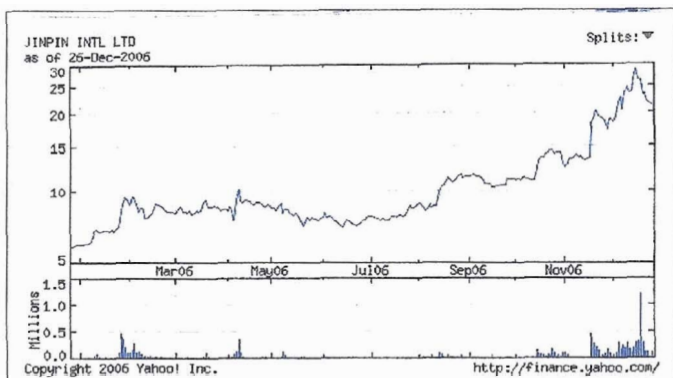
NBA Western Conference

Midwest	W	L	PCT	GB	L10	STRK	HOME	AWAY	CONF
San Antonio	36	19	.655	–	7-3	W2	21-5	15-14	22-12
Utah	34	19	.642	1	7-3	W5	22-8	12-11	21-12
Minnesota	31	23	.574	4½	5-5	W3	18-10	13-13	21-15
Denver	25	30	.455	11	4-6	L1	19-10	6-20	14-22
Dallas	23	31	.426	12½	6-4	W1	13-14	10-17	14-18
Houston	21	34	.382	15	3-7	L4	14-15	7-19	13-21
Vancouver*	17	37	.315	18½	5-5	L1	8-19	9-18	7-24
Pacific	W	L	PCT	GB	L10	STRK	HOME	AWAY	CONF
L.A. Lakers	44	11	.800	–	10-0	W10	24-4	20-7	24-9
Portland	44	11	.800		10-0	W10	22-3	22-8	26-7
Phoenix	34	20	.630	9½	9-1	L1	23-5	11-15	17-15
Seattle	34	22	.607	10½	5-5	L1	18-9	16-13	22-11
Sacramento*	31	23	.574	12½	3-7	L3	20-6	11-17	18-12
Golden State	15	40	.273	29	3-7	L2	9-18	6-22	7-25
L.A. Clippers*	11	45	.196	33½	0-10	L13	8-16	3-29	5-28



* Late game not included

JST had momentum (see graph). The fast movement of JST stock attracted momentum investors. The financial report of December 20, 2006, disclosed the issuance of additional stock and broke the momentum. (The stock immediately went down.) Since the momentum stopped, these



investors have sold their stock and moved on.

At this time, the company has not disclosed an update on sales and earnings for 2007.

3. Over-analysis:

One of the difficulties of being an investor is that the amount of new information available on a daily basis is often small. JST only provides quarterly reports; as such, significant new information is available every 90 days.

On December 20, 2006, JST provided an additional financial report that disclosed the following. The company:

- Raised \$25.7 million by selling 1.4 million shares of stock. The proceeds of the sale will be used in three ways:

1. Using \$11 million to buy out 15% of JST stock owned by a minority partner (Hainan Jinpan Electric Company Ltd). This will give the shareholders 100% ownership of the company.

2. Expanding the Haikou manufacturing facility in two phases.

In the first phase, a 93,000- square foot building was designed and built.



This phase was completed in October 2006.

In the second phase additional equipment will be purchased to increase production capacity from 4 million kVa to 6 million kVa per year.

3. Building a new 3 million kVa manufacturing facility in Wuhan, China. JST currently has a sales office in Wuhan and is generating significant revenue from this region.

Wuhan is located in the center of China. According to www.Wuhan.com:

“Wuhan is an energetic city, a commercial center of finance, industry trade and science with many international companies located there. With scientific, technological and educational institutions Laser City and the Wuhan University, the city is also an intellectual center.



“Situated at the crossroads of central China, Wuhan is a transportation hub for air traffic and

railways as well as ferry traffic. The distance from Beijing, Shanghai and Guangzhou is more or less equal and the giant Yangtze River (Chang Jiang), the world’s third longest river, and the Han River pass through the city.”

Currently, JST purchases steel from the Wuhan region. Additionally, the company hires graduates from the area’s colleges.

JST’s Consolidated Sales by Region (In \$Millions U.S.)

	Year Ending 12-31							
	'98	'99	'00	'01	'02	'03	'04	'05
Beijing	5.0	4.3	5.9	5.7	5.9	5.9	5.06	7.14
Changsha	-	-	-	-	-	-	1.34	1.56
Chengdu	-	1	-	1.3	1.8	2.7	-	-
Chong Qing	-	1.0	1.3	-	0.4	1.8	1.14	2.09
Dongbei	-	-	-	2.2	3.0	2.3	-	-
Guangdong	-	1.3	3.6	3.9	4.9	4.9	4.10	5.10
Guangxi	0.7	-	-	-	-	-	1.54	1.64
Hainan	0.5	-	-	-	-	-	0.94	-
Jiangsu	-	-	-	-	-	3.1	5.05	6.19
Liaoning	-	-	-	-	-	2.3	5.29	5.46
SiChu	0.6	0.7	-	-	-	-	-	-
Sichuan	-	-	-	-	-	2.7	2.62	2.87
Shanghai	-	-	-	-	-	2.8	3.30	3.61
Shanxi	-	-	-	-	-	-	1.24	2.32
Tianjing	1.0	-	-	-	-	-	2.38	2.49 ¹
Wu Huan ¹	-	1.0	1.4	1.5	1.7	1.5	2.22	3.10
Yunnan,	-	-	-	-	-	-	-	-
Guizhou	-	-	1.2	1	1.0 ¹	1.0	1.17	1.88
Zhejiang	-	-	-	-	-	1.5	1.81	2.67
Other	2.1	4.6	3.7	7.7	9.0	5.9	3.05	6.49
	9.9	12.9	17.1	22.3	27.7	38.4	42.25	54.61

1. Numbers inconsistent from year-to-year. Spelling of regions inconsistent from year-to-year.

Location of Sales Offices in China

	1998	1999	2000	2001	2002	2003	2004	2005
Anshan	X	X	X	X	X	X	X	X
Beijing	X	X	X	X	X	X	X	X
Changsha	X	X	X	X	X	X	X	X
Chengdu	X	X	X	X	X	X	X	X
Chongqing	X	X	X	X	X	X	X	X
Dalian		X	X	X	X	X	X	X
Guangzhou	-	X	X	X	X	X	X	X
Hangzhou	X	X	X	X	X	X	X	X
Hefei	X	X	X	X	X	X	X	X
Kunming	X	X	X	X	X	X	X	X
Lanzhou	-	X	X	X	X	X	X	X
Nanning	X	X	X	X	X	X	X	X
Shanghai	X	X	X	X	X	X	X	X
Shenyang	-	X	X	X	X	X	X	X
Shenzhen	-	X	X	X	X	X	X	X
Suzhou		-	-	X	X	X	X	X
Taiyuan	-	X	X	X	X	X	X	X
Tianjim	X	X	X	X	X	X	X	X
Wuhan	X	X	X	X	X	X	X	X
Xian	-	X	X	X	X	X		X
Xingiang	X(?)	-	-					
Xuzhou	-	X	X					

Note that spelling varies from year to year.

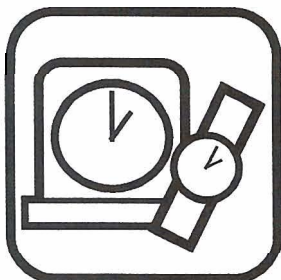
LFS believes that long-term shareholders of JST will benefit from the company's decisions to buy out the minority partner and expand the manufacturing facilities. In 2005, the minority partner earned \$915,000. Buying-out the minority investors of a growing company for only \$11 million seems to be a relatively inexpensive price.



Discounted cash flow analysis suggests that it would have been acceptable to pay as much as approximately \$16 million. Additionally, the \$16 million discounts the potential of future earnings.

JST's management owned one-third of the minority interest. They could have justified paying a higher amount to buy out the minority interest – \$16 million versus \$11 million. Instead they chose to be fair to the shareholders and took the lesser amount.

The decision to raise the \$25.7 million was made quickly. Perhaps more time should have been spent to consider additional options. As JST investors, we must trust that management is making good decisions for the shareholders. I believe that management is, in fact, doing this.



Time will tell if expanding the Haikou manufacturing facility and building a new plant in Wuhan was a good use of shareholder capital.

As shareholders we have a level of protection because management is the majority company shareholder. They benefit by continuing to make good decisions so they don't "cheat" themselves.

JST Stock Ownership By Directors As a Group

Year	Number of Shares (In Millions)	% of Class
1998	4.77	62.3%
1999	6.83	70.9%
2001	3.81	56.6%
2002	3.71	55.5%
2003	3.19	47.1%
2004	3.13	46.8%
2005	2.88	41.1%

Stock Valuation – Missing Information:

I spent a considerable amount of time determining the fair value of JST stock. A brief summary of the initial analysis follows. Please keep in mind that the analysis was completed prior to the December 20 financial report:

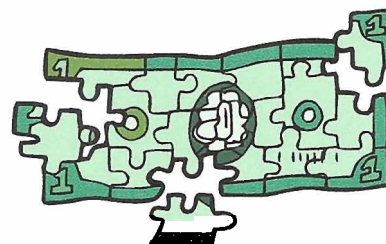
High Earnings Per Share:

Assuming that the company can generate 8% net margins, JST could earn approximately \$1.20 to \$1.40 per share in 2007. This amount of per share earnings suggests that JST could trade in the range of \$30.00 to \$42.00 per share.

Based upon the December 20, 2006, financial report we can conclude the following:

- The company expects a large sales increase.
- Manufacturing facilities are too small to support the projected increase in sales.

At this time I cannot update any projections



because of the missing information.

I expect that additional information will be provided about the 2007 projections for sales and earnings.

Update on Underwriters Laboratory Approval:

Since its inception, JST's goal was to be able to sell transformers in the United States. To do this the company believed that applying for and receiving Underwriters Laboratory (UL) approval was critical.

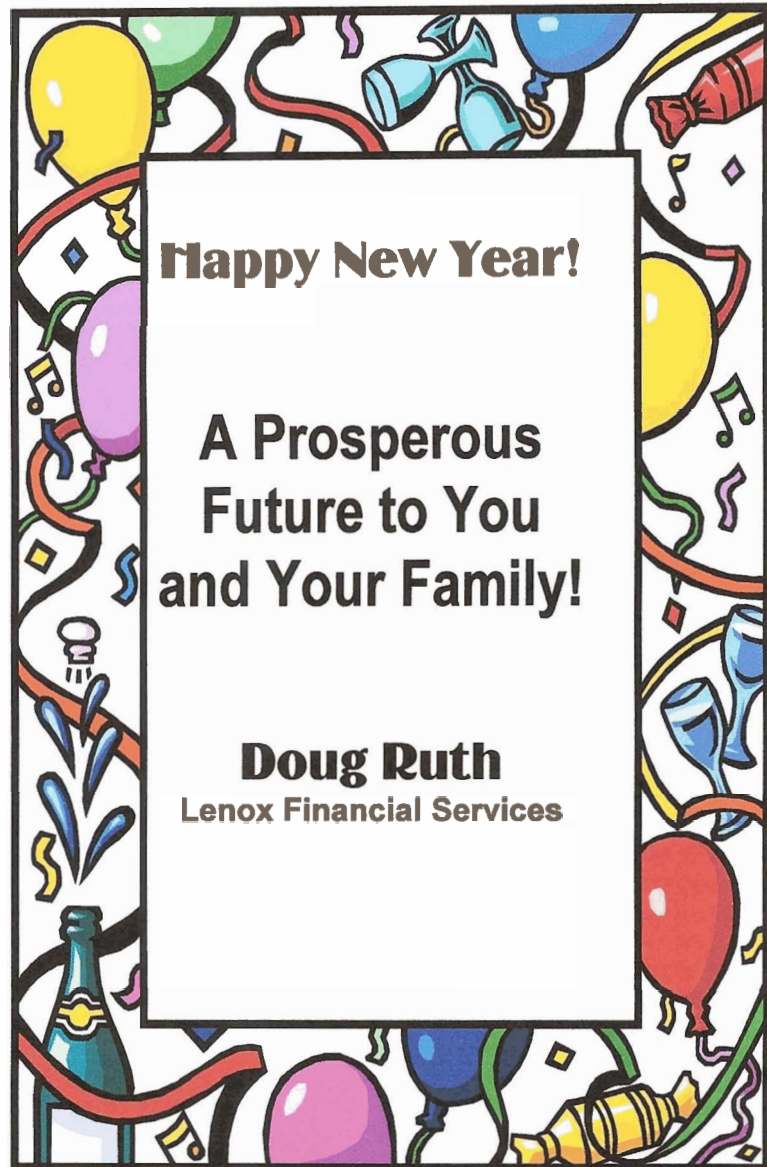


Initially, JST operated small satellite offices in the U.S. and supplied sub-components to other U.S. manufacturers.

UL approved JST's facility to conduct testing for UL listing of company products. The company is in the final stages of receiving UL approval for its product as well. Approval of the overall project is expected to occur in the fourth quarter 2006.

Positive Additional Information:

I expect that the additional information will be positive. LFS will provide another update when more information becomes available. Meanwhile, consider adding to your JST position. If you do so, you should be rewarded with a higher stock price later in 2007.





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For all the latest information on Stocks, Bonds and Insurance.

If you have a password, you can access your Southwest Securities account as well.

For a password, call or e-mail the LFS office.