

**GTA Securities Research  
Institute****Contact Us**

**Address: 21/F, Zhongshen  
Building,**

**Beihuan Avenue 7003, Futian,  
Shenzhen, P.R. China 518034**

**Tel: 86 755 83948443**

**Email:gtacsmar@gtadata.com**

**www.gtadata.com/en**

**Content Overview:**

- The overall macroeconomy rose at an excessively rapid rate in 2007. The foreign trade surplus expanded significantly, consumption growth steadily accelerated, fixed assets investment remained too high for too long, prices rose greatly, and the credit supply was excessive.
- In this past year investors in China pulled money from their savings accounts and poured it into the stock market in a foamy frenzy of trading that focused the world's attention on the Chinese stock markets like never before.
- China's fund industry managers saw a market feast in 2007 that exceeded even their rapacious imaginations. In just 10 months, fund size expanded from some CNY 900 billion at end of 2006 to CNY 3000 billion, and fund holder number increased to 110 million.
- The bond market consistently dropped in 2007, except for short breaks in July, August and December.
- In 2007, the Chinese warrant market continued to play an important role in the securities market with the total trading turnover amounting to CNY 7.71 trillion.
- There were 109 venture capital firms that expanded capital or raised new funds in 2007, and raised capital surged to CNY 89.338 billion, more than 4 times levels in 2006.

## **I. Overview of the Macroeconomy for 2007**

### **1. Summary**

The overall economy showed an excessively rapid rise in 2007. The annual pace of economic growth in the first three quarters exceeded 11%, peaking at 11.9% in the second quarter. The annual economic growth is expected to be approximately 11.4% for 2007, above that of 2006, and likely to exceed the previous annual GDP growth high set in 1995. In terms of main economic indicators, foreign trade surplus expanded significantly, consumption growth steadily accelerated, fixed assets investment remained high long, and credit supply size was excessively large.

While consumer price index (CPI) levels showed only a moderate rise in 2006, they reached 4.6% and are expected to hit 4.7% for the whole of 2007, a new high for the decade. Year-over-year CPI increase stayed above 6% for the fourth consecutive month in December. Structural analysis and comparison of CPI increases in the previous ten months indicate that the price increases may be mainly attributed to rising food prices, notably the prices of meat, poultry and related products, cooking oil, fresh vegetables and seafood. The preliminary staple food prices announced by the Ministry of Agriculture on January 3, 2008 revealed that the wholesale price of farm products had jumped 14.9% year-over-year, 3.9% lower than the year-over-year growth in November, while the price of edible farm products climbed 12% year-over-year, some 4% lower than that in November, according to the Ministry of Commerce.

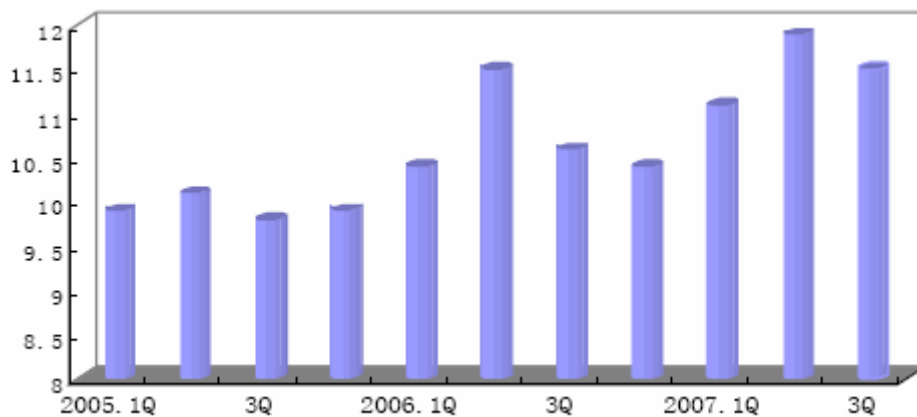
The Balance of Payments in the first half of 2007 showed that the current, capital and financial accounts continued to show surpluses despite extensive structural changes in China. Dominating with 64% of the surplus in the Balance of Payments, the current account surplus increased 78% year-over-over to USD 162.9 billion. Even as the current account's rate of growth slowed, down 6%, the surplus of capital and financial account rocketed 132% year-over-year to realize USD 90.2 billion of surplus, a 6% increase in year-over-year growth last year.

The overall fixed assets investment maintained stable high growth in 2007 while apparently decreasing its monthly volatility compared with 2006. The accumulated growth in previous eleven months was 26.8%, 0.2% slight year-over-year rise, remaining stable as a whole.

The credit supply in the previous eleven months in 2007 grew CNY 400 billion year-to-year to CNY 3.58 trillion. CNY loan balance growth reached 17.03%, rising 2.23% year-over-year. Although the Central Bank did not disclose the expected target for credit size and growth at the 2007 working conference, there were indications that it felt the supply was too large and that it was showing excessively rapid growth. Residential savings deposits suffered a significant drop, as higher returns were sought in the market and much of their increase is linked to current deposits. Despite the slump in the summer months, residential savings deposits seem likely to continue to show as weak growth as they have this year, having risen only some CNY 229.6 billion through end of October, a mere 11% of the rise in the same period last year. There was no increase in monthly savings deposits during the first ten months of 2007 with the figure actually being negative for six of those months and with the figure declining by CNY 500 million for the fourth consecutive month in October.

### **2. Relevant Statistical Data and Charts**

Chart 1: Quarterly GDP Growth in China



Data source: National Bureau of Statistics of China

Table 1: Main Economic Data of the Previous Eleven Months in 2007 (%)

Rise in Total Imports & Exports	23.6
Rise in Total Retail Sales of Consumer Goods	16.4
Rise in Fixed Assets Investment in Urban Area	26.8
Rise in Value Added of Industry	18.5
CPI	4.6
Rise in Ex-factory Price of Industrial Products	2.9
Rise in Purchasing Prices of Raw Material, Fuels and Motive Power	4.1
M1 Growth (End-November)	21.67
M2 Growth (End-November)	18.45
Credit Growth (End-November)	17.03

### 3. Significant Events

The new Enterprise Income Tax Law passed in March 2007 will take effect on January 1, 2008, as scheduled. The new law replaces the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises and the Provisional Regulations of the PRC on Enterprise Income Tax. The standard tax rate under the new law is 25%, with a reduced tax rate of 20% available to small-scale enterprises that make small profits. Hi-tech enterprises will enjoy a 15% tax rate if they fall into certain categories set by the central government.

Using USD 3 billion of the PRC's approximately USD 1.2 trillion foreign exchange reserve, the China Investment Corp. (originally named State Foreign Exchange Investment Company) acquired an almost 10% non-voting stake in US private equity giant, the Blackstone Group, at the Blackstone Group's June 2007 IPO.

The State Environmental Protection Administration of China (SEPA), the People's Bank of China and China Banking Regulatory Commission jointly released their report "Opinions on Implementing Environmental Protection Policies and Rules and Preventing Credit Risks" (No.108 [2007] of the SEPA) on July 17. The Opinions report sets new goals for the cooperation and interaction between environmental protection departments and financial regulatory departments. The report recommends that the government should improve credit security by making more efforts in environmental supervision, support environmental protection by exercising strict control over credit management, make more efforts in subjecting enterprises with environmentally illegal behaviors to economic restrictions and supervision, and change the status quo in which the "enterprises' cost for environmental law-compliance is much higher than that for environmental violations".

The Opinions of the State Council on Solution to the Housing Problems of the Urban Low-income Families was promulgated on August 13, which is targeted at low-income families in urban areas and strives to establish a healthier, standardized and more affordable urban housing system

On September 29, the China Investment Corp. announced its establishment upon the approval of the State Council, with registered capital of USD 200 billion. This capital was raised from the PRC's USD 1.2 trillion foreign exchange reserve. One third of the capital will be used to acquire China Central Huijin Investment Co., one third will be reserved to invest in state-owned banks in order to carry out joint-stock system reforms, and the remaining some USD 70 billion is earmarked for overseas investment.

On October 31, the State Development and Reform Commission and the Ministry of Commerce promulgated the Catalogue for the Guidance of Foreign Investment Industries (Amended in 2007) upon the approval of the State Council, which came into force on December 1, 2007. The Catalogue for the Guidance of Foreign Investment Industries (Amended in 2004) was annulled.

On November 8, 2007 (EST America), the U.S. Federal Reserve System (Fed) made an official announcement that China Merchants Bank Co., Ltd. had received approval to open a branch in New York and was allowed to engage in wholesale deposit-taking business, lending, trade finance, and other banking services.

The Ping An Insurance (Group) Company Of China, Ltd. acquired 4.18% stake in Fortis for EUR 1.81 billion on November 28.

## II. Stock Market Overview for 2007

### 1. Summary

In this past year investors in China pulled money from their savings accounts and poured it into the stock market in a foamy frenzy of trading that focused the world's attention on the Chinese stock markets like never before. The first sign of this sea change occurred in late February when for the first time a drop in Chinese stock markets helped trigger a global market correction. The Shanghai Composite index fell 8.8% on February 27<sup>th</sup>, but would ultimately rocket up 97% for the whole of 2007, outperforming all other major benchmark indices worldwide.

Pundits argue that the rally is unlikely to continue and warn that volatility remains high as the central government is struggling to keep inflation in check and may raise interest rates further. Also, an expanding mortgage crisis in the US could chill demand for Chinese exports. With a solid stamp tax hike, the temporary ban on new subscription to mutual funds and hints of a capital gains tax, the government has sent a message that indicates its resolve to keep the markets steady in the months leading up to the Beijing Olympics in August.

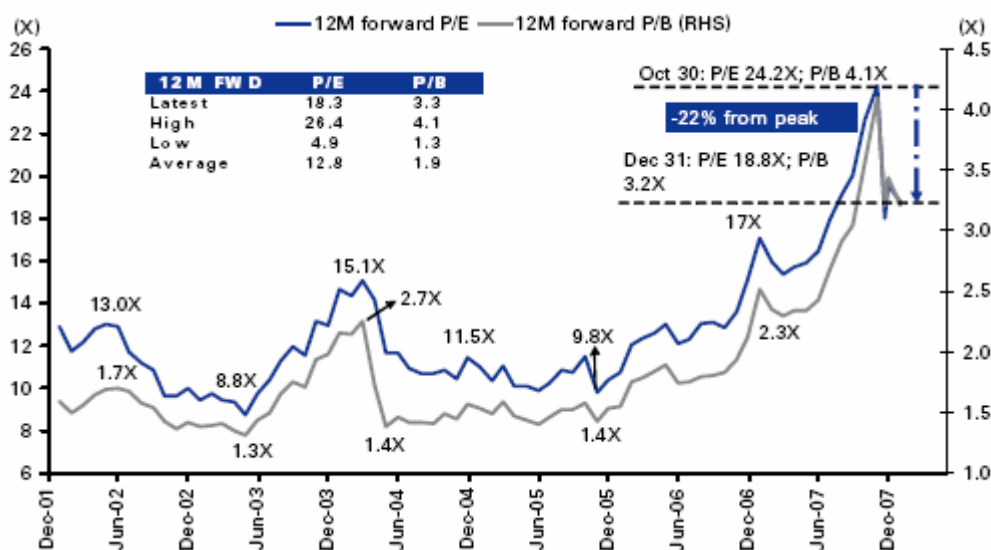
In another sign of the Chinese mainland's growing market muscle, Shanghai became the second most popular place for initial public offerings behind New York as companies raised USD 48.62 billion through November, according to the World Federation of Exchanges. Funds raised in Shanghai's market surpassed the USD 31.81 billion raised by IPOs in Hong Kong and the USD 43.47 billion chalked up in London during the 11-month period, the federation's numbers show. Only the New York Stock Exchange, with USD 52.06 billion, had more. In spite of growing position of Shanghai and Shenzhen stock markets, however, Chinese government still sets strict limits on the inflow of foreign capital, and foreign retail investors can only gain limited access to the RMB-denominated A share market by applying for QFII status through QFII program. China's regulatory authorities expanded the QFII investment quota from USD 10 billion to USD 30 billion in December.

The success of China's stock market in the past year can not be wholly attributed to the prosperous economic development or ebullient investors. It took concerted government effort to rebuild that investor confidence, as serious problems had distanced investors from stock market in past years, resulting in lower stock prices. The government implemented a series of reforms, and aimed at cracking down on rampant price manipulation and other illegal activities, enhancing equity arrangement, and strengthening the requirements on information disclosure, among others.

Due to concerns about the excessively rapid price increases, the regulatory authorities required mutual funds to suspend new investor subscriptions in mid October, tightening the market. With termination of the ban at end of October, market has rebounded only slightly as investors seem to have taken the hint. The Shanghai composite index dropped 14% from its record high of 6124.04 on October 16, closing at 5,261.56 on the last trading day of 2007. Many analysts and investors continue to think highly of the investment opportunities China offers, predicting that China's economic growth should be close to 11% in 2008 despite many measures to inhibit investment and control inflation.

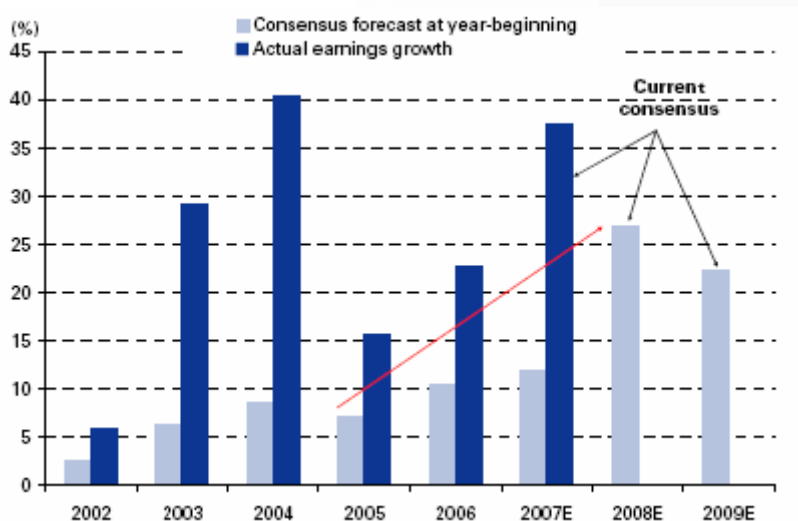
### 2. Relevant Statistical Data and Charts

Chart 1: China's stock at historical high



Data source: Goldman Sachs Strategy Research

Chart 2: MSCI China Index, Actual Earnings Index, and Earning Forecast



Data source: Goldman Sachs Strategy Research

### 3. Significant Events

The stock price of Zhejiang Hangxiao Steel Structure Co., Ltd. (Hangxiao) experienced amazing highs and lows between February and June 2007. Hangxiao was placed on file for investigation by the CSRC on April 5 on suspicion of insider stock trading. This case was called ‘the First Case of Insider Trading in Bull Market’, and it has spurred the regulatory authority to crack down on insider trading and market manipulation.

The Regulation on the Administration of Futures Trading went into effect as of April 15, laying down a legal foundation for the launch of the financial futures market.

The very style of the market changed abruptly on May 30, 2007 when China raised the stamp tax on securities trading to 0.3 percent. The Shanghai and Shenzhen stock exchanges slumped after opening

at 9:30 AM, falling more than 6%. More than 900 individual stocks reached the limit-down. Before the May 30<sup>th</sup> slump, the market was dominated by small-cap stocks plus theme stocks, with low-price stocks popping up like popcorn. After May 30, the market became dominated by large-cap and blue-chip stocks, as those stocks outperformed medium and low-price stocks.

The Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors went into effect July 5, marking the start of QDII's overseas investments. Subsequently various financial institutions such as banks, insurance firms, funds, brokerages and trusts obtained QDII qualification or issued QDII products.

On August 20, concerned departments revealed that a pilot scheme would be implemented for allowing individual investors from Mainland China to invest directly in Hong Kong listed stocks. This so-called "through-train program" immediately aroused a surge in Hong Kong stock market. However, in November the Premier announced the program needed to be regulated in order to monitor the fund flows, educate investors, and minimize damage to mainland and Hong Kong stock markets. The market tanked as investors sold-off Bank of China and other mainland securities firms expected to benefit from the program.

On November 5, the PetroChina Co., Ltd. (PetroChina) returned to the A-share market, opening at CNY 48.6 per share, and closing at CNY 43.96, 191.02% and 163% higher than issue price respectively. Including the shares held by the China National Petroleum Company at the same value as the publicly traded A-shares, PetroChina's market capitalization briefly exceeded CNY 7 trillion. More than a month later, its market capitalization still exceeds Exxon Mobil Corporation's USD 400 billion, confirming its position as the world's largest company and making it the heaviest-weighted stock in the A share market.

### **III. Fund Market Overview for 2007**

#### **1. Summary**

China's fund industry managers saw a market feast in 2007 that exceeded even their rapacious imaginations. In the first 10 months of 2007, fund size expanded from some CNY 900 billion to CNY 3 trillion as the number of fund holders increased to 110 million. Experts estimated that a quarter of Chinese families purchased funds and some one trillion residential deposits flowed into the financing market via funds, with total fund size equal to one sixth of residential CNY deposits and 28% of A shares remaining in funds' hands. Prior to 2007, ordinary people were limited by their lack of knowledge about financial instruments other than T-bills and savings deposits. There can be no doubt that China's fund industry has experienced a tectonic shift in its customer base in 2007.

Index funds had a better average performance than active funds, and the average annual yield for 17 index funds was an astounding 125.4% in 2007.

The average income of active stock funds was worse than that of index, but enjoyed a noticeable 110.83% rise.

The average annual yield of hybrid stock-oriented funds was 97.53%.

Bond funds also achieved good performance in bull market with average yield of 33 bond open-end funds reaching 16.86%.

The average 7-day annualized yields of monetary market funds reached 3.19%.

Four QDII funds issued since September have performed poorly with their record staying negative through December 14.

The highest income of closed-end funds was 164%, and the yields of closed-end funds in general outperformed. The average price of active funds rose 126.38% while three enhanced index closed-end funds rose 107.48%.

#### **2. Relevant Statistical Data and Charts**

Chart 1:

Monthly Data	Total Fund No.	Closed-end Fund	No. of Open-end Fund	No. of QDII	No. of ETF	Total Fund Units	Total Fund Assets	Closed-end Fund Unit	Assets of Closed-end Fund	Open-end Fund Unit	Assets of Open-end Fund	Open-end bond-oriente	Assets of Monetary Market Fund	ETF Assets	QDII Assets
2006-12	307	53	249	0	5	6107.02	8509.42	812	1623.67	5184.4	5248.3	439.23	1031.5	166.7	0
2007-1	311	51	255	0	5	6673.05	10137.2	802	1833.6	5780.2	7017	342.09	753.8	190.7	0
2007-2	311	50	256	0	5	6673.05	9509.24	797	1795.4	5785.2	6437.5	332.28	753.8	190.3	0
2007-3	319	50	264	0	5	7412.1	10677.4	797	1891.99	6524.2	7462.4	359.12	753.8	210	0
2007-4	324	47	272	0	5	8834.33	13026.9	772	2192.35	7734.9	9523.6	399.91	703.9	207.2	0
2007-5	325	41	279	0	5	9347.61	14579.5	742	2010.56	8531.4	11229.3	409	703.9	226.8	0
2007-6	347	40	302	0	5	12586.2	17992.5	732	2018.83	11795.1	14641.7	515.51	641.4	175	0
2007-7	349	41	303	0	5	12772	19718.1	845	2251.47	11867.4	16100	526.54	641.4	198.6	0
2007-8	357	41	311	0	5	13728.6	23667.9	887	2565.6	12780	19666.2	544.6	636.9	254.6	0
2007-9	359	42	311	1	5	14076.7	24714.1	937	2730	12780	20242.2	551	636.9	254.1	312
2007-10	361	41	311	4	5	19958.9	32131.5	932	2674.9	17779.1	26750.7	649.5	599.4	244.9	1212
2007-11	358	39	310	4	5	20069.8	28027.2	922	2354.2	17900.1	23126	627.4	602.2	207	1111
2007-12	363	37	317	4	5	22128.5	32594.8	904	2515.4	19946.6	27007.1	751.3	913.4	330.9	1077

Chart 2:



### 3. Significant Events

In March 2007, SAIF successfully raised USD 1.1 billion for the SAIF Partners III, earning it the distinction of being the first Mainland China-focused venture capital fund to raise more than USD 1 billion. The funds under management by SAIF now exceed USD 2 billion in aggregate.

On June 20, the CSRC released the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors and relevant circulars, indicating that the government has formally approved the establishment of QDII fund investing in overseas markets

such as the Hong Kong stock market. Twenty domestic fund companies met the QDII qualification requirement as stipulated, and three months later, the first stock QDII fund - Southern Global Enhanced Balanced Fund was formally issued. The first batch of four stock QDII funds issued have amassed some CNY 120 billion in assets by the end of October. The ICBC Credit Suisse plans to launch the fifth QDII product in China in January 2008, estimating it will be able to raise additional capital worth of CNY22 billion.

The CSRC approved the issuance of two innovative closed-end funds - UBS SDIC Ruifu Classify Stock Securities Investment Fund and Dacheng Selected Stock Fund, from the end-June and into early-July. These two funds are the first batch of closed-end fund products to be approved for listing following the implementation of the Law of Securities Investment Funds in June 2004. This marks the first time a fund has gained approval since the listing of the Yinfeng Fund some five years ago.

The monthly number of fund accounts opened exceeded for the first time new A-share accounts at the securities registration & settlement company in August. The total number of fund accounts reached 26 million at the end of 2007.

Following the establishment of the first industrial investment fund - Bohai Industrial Investment Fund at the end of 2006, a second batch of five industrial funds was approved in September with a total capital of CNY 56 billion, including Guangdong Nuclear Power & New Energy Industrial Investment Fund, Shanghai Financial Fund, Shanxi Energy Fund, Sichuan Mianyang High Technology Fund and China-Singapore High-Tech Industrial Investment Fund. The Shanghai Financial Fund accounted for some CNY 20 billion of the total, Mianyang High Technology Fund, some CNY 6 billion, with the remainder split between the remaining three. This development indicates that Chinese government may start expanding the size of industrial fund pilot, which will be favourable to the formal launch of the Measures for the Administration of Industrial Investment Fund Pilot.

On October 22, the China Southern Securities sold its 21% stake in Yinhua Fund at a premium of 55 times, creating a record high for equity auctions of fund companies. Also in October, Morgan Stanley acquired a 35% stake in Jutian Fund at a premium of some 70%. On December 26, Kinging Trust & Investment Co., Ltd. sold its 48% stake in Boshi Fund by public auction in Beijing, and after over 200 bids had been made, China Merchants Securities finally won the auction with a bid of CNY 6.32 billion, some CNY131.67 per share, beating Yinhua's previous record for the highest equity price of any domestic fund company.

On November 30, the CSRC released the Measures on Specific Client Assets Management Services Pilot of Fund Management Company, which marks the formal start of the financing business for specific clients of fund companies. According to the pilot, a fund company operating under these rules can obtain at most 20% of its net income from assets managed, which is certainly a great appeal for fund company when compared with the 1.5 % annual administration fee for public funds and the redundant restraints on the investment performance of private funds.

## IV. Bond Market Overview for 2007

### 1. Summary

#### 1) Trading of Interbank Market

The most important feature of interbank market in 2007 was the various changes in the yield curve in the first and second half year despite the continuing overall upward trend.

In the first half of 2007, the market yield curve tended to steepen. Despite the overall rise in the yield curve, the rise in long-term yields was significantly greater than the rise in short-term yields. The yields of medium- and long-term bonds increased significantly as a result, most noticeably in T-bonds and enterprise bonds with a maturity exceeding 10 years.

In the second half, under the impact of continuous interest rate increases for both deposits and central bank bills by central bank, some 1-year short-term bonds obtained soaring yields. The interest rate of short-term financing bonds experienced the most significant rise, with coupon of AA-rated short-term financing bonds jumping from below 4% to above 6.2%, advancing above 200 basis points. In the contrast, the yields of medium- and long-term bonds of above 7 years, especially medium- and long-term T-bonds, rose only slightly and had even started pulling back at the end of December. Thus, the yield curve for this group of bonds is flat overall.

#### 2) Issues in the Interbank Market

##### A. Central Bank Bills

141 issues of central banks bills were released in 2007, including 48 issues of 1-year central bank bills amounting to CNY 1617 billion, 47 issues of 3-month central bank bills amounting to CNY 1022 billion, 46 issues of 3-year central bank bills (including 4 issues of targeted central bank bills) amounting to CNY 2639 billion. 3-year central bank bills, resumed in 2007, will not be mature until 2010, which will greatly relieve the capital supply pressure from mature bills in the following two years.

##### B. T-bonds

There were 20 issues of book-entry T-bonds and 8 issues of special T-bonds released in 2007, totaling to CNY 2178.678 billion.

##### C. Financial Bonds

66 issues of financial bonds were released in 2007, including 29 issues of China Development Bank, 22 issues of Agriculture Development Bank of China, and 15 issues of Import and Export Bank of China, of which 33 issues of financial bonds were floating rate bonds.

In 2007, financial bond issues focused on short-term and medium bonds with maturities of less than 5 years, with noticeably floating rate bonds becoming popular from the second quarter onward, corresponding to the continuous rise in yields and amid concerns on the frequency of rate rises in the second half of year. Floating rate bonds made up 47% of issues, satisfying investor demands to ameliorate interest rate risk. In addition, floating rate bonds appeared using the 3-month Shanghai Interbank Offered Rate (SHIBOR) as their benchmark rate.

##### D. Short-term financing bonds and enterprise bonds

Up to 89 issues of enterprise bonds and 263 issues of short-term financing bonds were released in 2007.

Influenced by the market, the issue cost of enterprise bonds and short-term financing bonds greatly increased. For example, as for an AAA-rated enterprise bonds with a 10-year maturity, the issue interest rate rose some 150 basis points from 4.05% to 5.53%. The rise in the issue cost of enterprise bonds is mainly attributed to the steep yield curve in the first half of year and tight policy through the whole year, while that of the short-term financing bonds can be mainly attributed to strengthened risk consciousness of all institutions caused by the case of Fuxi short-term financing bonds, big increases in the interest rate of 1-year central bank bills, and the continuous rise in the SHIBOR after its link to issue cost of short-term financing bonds.

### 3) Open market operations

Open market operations showed a trend from tight to loose in 2007, with the main withdrawal of currency from circulation occurring in the first half year and the net capital supply in the second half year. The accumulative net capital supplied was CNY 523.284 billion for the whole year.

### 4) Change in bond yields

The change in bond yield curve showed two outstanding phases: a massive rise in long-term interest rates in the second quarter and a significant jump in short-term interest rates in September and October. Taking 10-year T-bonds as an example, we see that the 143 basis points rise in annual yield was largely completed in the first half of year, with 100 basis points rise in yield in the second quarter and an ultimately tiny change in the second half of year despite a fluctuation of 40 basis points in the yield of long-term T-bonds. The surge in long-term T-bonds in the second quarter seems to have been mainly caused by existing expectations on an accelerating rise in prices, with a strong likelihood of interest rate increases, large uncertainties revolving around special T-bond issues, and the high possibility of an increasing long-term bond supply. Short-term interest rates had no obvious change in the first half of year, but experienced a great increase in September and October, which is quite unusual in the context of weak capital withdrawal. An important cause of this rise may be the demonstration effect of capital flow. Due to centralized issue of large-cap stocks in September and October, the demand for subscription capital rose significantly, and the monetary market interest rate suffered abnormal volatility.

## 2. Relevant Statistical Data and Charts

Table 1: Issue Information on Some Floating Rate Financial Bonds

Bond Acronym	Issue Result	Market Forecast	Issue Size (CNY 100 million)	Issue Date	Bid-to-Cover Ratio	Year
07GK(11)	S3M_10MA+0.480%	0.45%	100	2007-6-19	2.08	5
07GK(19)	S3M_5MA+0.290%	0.30%	150	2007-9-10	1.83	5
07NF(19)	S3M_5MA+0.50%	0.45%	66.8	2007-10-26	0.56	5
07NF(05)	R+0.500%	0.46%	120	2007-4-20	1.63	5
07JC(06)	R+0.450%	0.42%	100	2007-6-8	2.84	5
07NF(09)	R+0.550%	0.50%	100	2007-6-27	1.47	5
07NF(11)	R+0.730%	0.70%	100	2007-7-17	2.1	5
07GK(20)	R+0.270%	0.27%	150	2007-9-10	2.18	5
07JC(13)	R+0.600%	0.50%	100	2007-11-2	1.349	5
07NF(13)	S3M_5MA+0.230%	0.23%	100	2007-8-10	2.15	3
07NF(17)	S3M_5MA+0.20%	0.20%	139.8	2007-10-10	1.51	3
07NF(20)	S3M_5MA+0.55%	0.45%	120	2007-11-7	1.24	3

Table 2: Monthly Capital Supply from January 1, 2007 to December 31, 2007

Date	Supply (CNY 100 million)	Withdrawal (CNY 100 million)	Total (CNY 100 million)
2007-1-31	4959.62	10297.63	-5338.02
2007-2-28	6294.76	2402.38	3892.38
2007-3-31	3075.84	9533.14	-6457.30
2007-4-30	2184.07	3180.03	-995.96
2007-5-31	2589.95	2421.73	168.22
2007-6-30	4400.00	2481.58	1918.42
2007-7-31	2390.00	3508.50	-1118.50
2007-8-31	8202.20	4563.36	3638.84
2007-9-30	4370.00	2492.60	1877.40
2007-10-31	3600.00	2225.55	1374.45
2007-11-30	2841.16	2764.37	76.79
2007-12-31	12631.66	6435.54	6196.12

### 3. Significant Events

The Enterprise Annuity Fund was approved to access the interbank bond market in early March 2007.

On May 16, the People's Bank of China announced that renminbi capital raised by domestic financial institutions issuing CNY-denominated financial bonds in Hong Kong could be remitted into domestic financial institutions with the renminbi business operation qualification by the Hong Kong renminbi business settlement bank, meaning that bond issuers may now remit renminbi into Hong Kong to pay principal and interest of bonds.

On June 29, Standing Committee of the National People's Congress approved a plan to increase the foreign exchange reserves held by issuing CNY 1.55 trillion of special T-bonds to fund their purchase, and also passed a decision to revise income tax law, authorizing the State Council to start or stop levying or reduce the savings interest tax according to the needs of national economic and social development.

On September 19, the SSE released the Corporate Bonds Listing Rules, and two days later, promulgated the Issues on Issuance, Listing and Trading of Corporate Bonds.

On September 24, China Yangtze Power Co., Ltd. issued the first corporate bond in Chinese securities market, marking the start of the corporate bond market after years of preparation.

## V. Overview of Warrants Market for 2007

### 1. Summary

In 2007, the Chinese warrants market operated well, continuing to play an important role in securities market and becoming an important part of capital market. As statistics show, the total trading turnover amounted to CNY 7.71 trillion in warrants market, including CNY 3.88 trillion of call warrants and CNY 3.83 trillion of put warrants. The warrants trading turnover increased 287.44% as compared with 2006 and now account for 16.94% of the total trading turnover of A-shares..

In general, 2007 was a transitional year for the warrants market, as following, the equity division reforms, a large number of warrants matured and were delisted with few direct replacements. At the same time, emerging forces dominated by embedded warrants of convertible bonds continued to list. In 2007, 23 warrants matured and were delisted (11 call warrants and 12 put warrants), and 8 warrants were listed, including 7 call warrants and 1 put warrant, CSA JTP1. By the end of 2007, 12 warrants were still trading in warrants market, 9 call warrants and 3 put warrants. Among call warrants, only Wuliang YGC1 and SFC2 (of Shenzhen Development Bank) were warrants due to equity division reform, and the rest were all embedded warrants of convertible bonds.

Even with uncertainty caused by the transition from old to new warrant instruments, there were still hot issues in the warrants market. Regardless of the irrational surge in put warrants and speculation on new warrants, Wuliang YGC1, Maanshan CWB1, Sinochem CWB1, and Yuntianhua CWB1 all experienced above 30% rise in two and three trading days, which brought considerable short-term income. In a long run, call warrants such as Steel Vanadium GFC1 and Wuliang YGC1 rose greatly in the whole year. Steel Vanadium GFC1 soared 461.53%, far higher than the 289.37% rise in its underlying stock.

The warrants market will likely be injected with new blood in 2008 as partial listed companies issue convertible bonds with separately traded embedded warrants and covered warrants issued by brokers get launched in 2008. With these changes, the Chinese warrants market will become further connected with the international market.

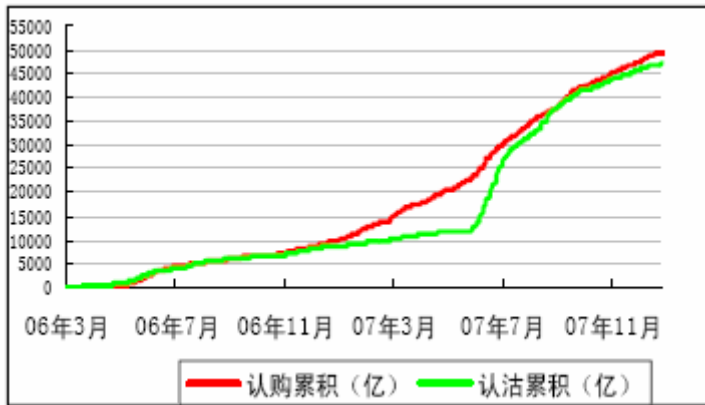
### 2. Relevant Statistical Data and Charts

Chart 1: Trend of Warrants / A Shares Ratio in Turnover



Note: The month from the left to right is March 2006, July 2006, November 2006, March 2007, July 2007, and November 2007.

Chart 2: Comparison in Turnover between Call Warrants and Put Warrants



Note:

1. Turnover of call warrants and put warrants with CNY 100 million as unit is denoted as red and green respectively.
2. The month from the left to right is March 2006, July 2006, November 2006, March 2007, July 2007, and November 2007.

### 3. Significant Events

On February 28, a share investor bought 820,000 Haier put warrants at CNY 0.001, which closed at CNY 0.699, creating a great wonder in the history of Chinese stock market.

On May 30, the Ministry of Finance raised the stamp tax on securities trading, leading to a crash in A shares. As stamp taxes are not levied on warrants, the trading volume rose. Amid growing stock speculation, put warrants, like QHSLP JTP1, CMB CMP1 and CIMC ZYP1 plummeted.

It was reported on June 15 that the turnover of 14 warrants reached CNY 557.55 billion during the week, exceeding the total turnover of Shenzhen stock market in the same period.

On June 26, the turnover of 14 warrants skyrocketed to hit a record high of CNY 137.2, which surpassed the total turnover of all stock funds in Shanghai market.

June 26 was also the court day of the first case of warrant compensation lawsuit. The plaintiff held that Guangzhou Baiyun International Airport Co., Ltd. didn't make it clear that December 15 2006 was the last trading day of Airport JTP1 and misled investors.

On August 1, the CSRC announced that investors must sign the written Risk Disclosure Statement for Warrants before applying to purchase warrants for the first time.

On August 15, the SSE restricted trading on two personal accounts of the second business department of a securities firm in Zhenxing Road, Shenzhen.

On October 26, the SZSE released a circular on adjusting the limit up/down of CIMC ZYP; as of October 30th, only rises, not drops, will be limited.

On November 15, the SZSE added letter "Z" before the warrant acronym to denote the last trading day of the warrant.

## **VI. Overview of Venture Capital Market for 2007**

### **1. Summary**

According to the latest statistics of China Venture Capital Annual Survey Report 2007 released by the China Venture Capital Research Institute (CVCRI), there were 77 enterprises with venture capital backgrounds listed in capital markets in US, Japan, Singapore, Korea, and Mainland China in 2007, which raised total capital of more than CNY 156.941 billion, with 50 enterprises realizing IPOs in the domestic capital market, some 28 in Mainland China and the remainder in Hong Kong. The exit of venture capital in such IPOs was led by the local venture capital institutions. Shenzhen Capital Group Co., Ltd. alone assisted ten enterprises in realizing their IPOs.

The above survey report showed that Chinese venture capital industry in 2007 had the following six main characteristics. First, Chinese venture capital size and total investments experienced explosive growth breaking the old records. Second, governmental and civil capitals have swarmed in, and a Renminbi fund upsurge emerged. Third, the structural organization of the firms is changing as partnerships became the preferred vehicle. Fourth, the investment industry has dispersed, and many chain enterprises expanded. Fifth, the exit of venture capital in IPO has become popular in China, and local venture capital has started to be more effective. Sixth, the hot investment industry accelerated integration, and the industrial chain has gradually improved.

In 2007, 109 venture capital firms expanded capital or raised new funds totaling CNY 89.338 billion, more than 4 times the amount in 2006.

According to the CVCRI, by the end of 2007, the venture capital managed by domestic and foreign venture capital institutions dedicated to Mainland China investments totaled CNY 120.585 billion, more than twice the total capital in 2006. Total investments in 2007 exceeded CNY 39.804 billion, more than 2.5 times the level in 2006, and there were 741 investment projects, more than twice the total for 2006.

There were 83 domestic institutions that increased capital or raised new funds in 2007, and the raised capital amounted to CNY 19.753 billion, more than twice that in 2006.

Although the proportion of contribution to domestic capital was raised from 7.4% in 2006 to 34.57% in 2007, the government's roles changed – from direct investor to indirect investor. Instead of making a direct investment to establish a venture capital company, the government provides funds and directions to the institutions but allows them to move independently in the venture capital field.

Apart from government capital, many large enterprise groups actively pursued the venture capital feast, accounting for 36.37% of the total capital for 2007.

Due to the influence of the domestic stock market and national policy, many foreign institutions started establishing Renminbi fund to gradually change their profile from foreign capital, so as to facilitate their investment in and exit from Chinese enterprises.

### **2. Significant Events**

The US Tiger Fund has again made a venture capital investment of USD 20 million in the Longtop Group on January 26, 2007. The US Tiger Fund made an investment of more than USD 20 million in 2005. This investment was generally believed to show that foreign capital thought highly of China's financial IT service market.

On June 8, auto insurance agent CARS.CN announced it received its third round of investment to the tune of USD 25 million. Besides the six original investment institutions, one new investment institution participated in this round of investment. CARS.CN was established in 2005, received the first round of investment of USD 2 million from Walden International and Fortune International

Partners at end of 2005, and the second round of investment of USD 13 million in September 2006.

One of China's largest insurance intermediaries, China Zhonghe Co., Ltd. signed a cooperative agreement with US private fund Sequoia Capital China in Beijing on June 20 and received a USD 10 million investment.

On September 19, BBspace.cn obtained a venture capital investment of USD 11 million from IDG, Superdata Software and a Singapore fund. BBspace.cn had previously obtained USD 20 million from a consortium of international venture capital firms such as IDG and OZ at the end of 2006.

Century21 China Real Estate (Century21) announced that Avenue Capital had invested USD 52 million on October 24, the largest international private equity investment obtained by Chinese real estate agency sector to date. It was said that Century21 has entered into an investment agreement with Goldman Sachs Strategic Investments (Asia) LLC (Goldman Sachs), a wholly owned subsidiary of the Goldman Sachs Group, Inc. In the first round of investment, Goldman Sachs injected USD 22 million into Century 21 and become its second largest shareholder. With this new round of investment by the Avenue Capital, Avenue Capital became the third largest shareholder.

Digital TV casual game company viewlinecn.com announced on December 13 that the first round of financing ended with a whopping USD 10 million investment – the largest-ever deal in digital TV value-added business.