



大道求证，知微见著
Deep data, deep knowledge

China Market Review – July 2007

brought to you by GTA

Overview :

The macroeconomy was on a brilliant trend in the first half of 2007. The economic growth rate reached the historical highest level over the same period, the consumption and investment demands continued to thrive, and the net export also hit a new record high. However, the price level over the same period also subsequently increased. The CPI amounted to 4.4% and 5.6%(Already published in August 13) respectively in June and July, exceeding the warning line, notably the pork price. The inflation pressure was dramatically increased.

- *The stock market kept rising after the fluctuation adjustment in June, and stock indices of Shanghai and Shenzhen Stock Exchanges both created a new record high in July.*
- *Thanks to the good performance of the stock market, the fund market also performed remarkably well, but the closed-end fund behaved ordinarily.*
- *The bond market was shocked by the good performance of the stock market, and the T-bond yield curve tended to be significantly flat. Meanwhile, the financial bonds leaped and then went back down. The Enterprise bonds' response slightly lagged behind. But the bond market still seems to have a brilliant prospect.*
- *The warrants market seemed to be unprofitable, which indicates that investors are increasingly rational.*
- *Chinese venture capital market is remarkably brisk in July thanks to the favorable environment that Chinese government created for venture capital. While independent innovation is promoted in China at present, venture capital will make considerable achievements in the future.*

I. Overview of Macroeconomic Trends in July 2007

1. Summary

According to the macroeconomic data of the first half of 2007 released by the National Statistics Bureau of China, the CPI of the first half of 2007 increased by 3.2% over the same period last year, and the GDP growth speed hit a record high over the past 11 years, which shows that economic growth is slightly too fast, consumption develops steadily, but credit supply occupies a dominant position as usual. With the reduction of interest tax and the increase of interest rate on RMB deposits and loans, the market will enter an observation period of early policy. The new tight policy is unlikely to be released, but there is still controlling pressure in the second half of 2007.

2. Economic indicators are listed in Table 1

Table 1

<i>Main Macroeconomic Data for July</i>		
<i>Data Name</i>	<i>Data for June</i>	<i>Forecasted Data for July</i>
<i>Foreign Trade Surplus</i>	<i>USD 26.91 billion</i>	<i>USD 23 billion</i>
<i>Foreign Trade Export Growth</i>	<i>27.1%</i>	<i>25.1%</i>
<i>Foreign Trade Import Growth</i>	<i>14.2%</i>	<i>16.8%</i>
<i>Money Supply (M2)</i>	<i>17.1%</i>	<i>17.0%</i>
<i>Ex-Factory Price of Industrial Products</i>	<i>2.5%</i>	<i>2.7%</i> <i>(2.4%, Already published in August 10,)</i>
<i>Consumer Price Index</i>	<i>4.4%</i>	<i>5.1%</i> <i>(5.6%, Already published in August 13)</i>
<i>Total Retail Sales of Consumer Goods</i>	<i>16.0%</i>	<i>16.1%</i> <i>(16.4%, Already published in August 14)</i>
<i>Industrial Value-Added</i>	<i>19.4%</i>	<i>18.3%</i> <i>(18%, Already published in August 15)</i>
<i>Fixed Assets Investment in Urban Area</i>	<i>26.7%</i>	<i>26.9%</i>

3. Significant Financial Events in July

The CPI reached 5.6% in July, hitting a new record high. Inflation pressure further expands, the price level, notably pork price, soared by 20% as compared to June, and grew up more than one fold over the same period last year. The residential pressure is highly increased.

According to the Central Bank of China, the foreign reserve balance hit USD 1332.6 billion by the end of June, increased by 41.6% over the same period last year. The foreign reserve grew by USD 266.3 billion in the first half year, exceeding the increase of USD 247.3 billion in the whole 2006. The GDP of the first half 2006 amounted to CNY 10676.8 billion, increased by 11.5%, 0.5% higher than the same period of last year.

The Central Bank of China raised benchmark interest rate on RMB deposits and loans for financial institutions by 0.27% as of July 21, 2007; The State Council announced that the individual income tax on interest income from saving deposits is going to be reduced from 20% to 5% as of August 15, 2007.

As investigated, the house prices of the 70 major cities increased by 5.7% in July over the same period last year, which was 0.1% lower than last month. The selling price of non-residential commercial house went up by 4.9%, which was 0.4% lower than last month.

II. Overview of Stock Market in July 2007

1. Summary

The indices of both Shanghai and Shenzhen stock markets continued to fluctuate and the SSE Composite Index broke the key psychological support at 3,600 from the 3836.29 points in early July. In such a thin market, investors' confidence is seriously weakened. Influenced by news on unprofitable market, sustainable sound position of national macroeconomy, and optimistic attitude towards market predicted by the interim report of listed company, the stock index rose again. The SSE A Share Index even has soared to 4471.31-point by July 31, increased by 16.55% comparing with the early July, which hit a new record. With expected powerful support for the bull market, the SZSE Constituent Index also soared to 129131, rose 19.56% compared with the early July. The total negotiable market capitalization of the stock markets amounted to CNY 6788.221 billion on July 31, rose by 21.34% compared with the CNY 5594.57 billion in early July. The capital inventories of the stock markets reached CNY 1080 billion in end-July, increased by CNY 74 billion. The average A share price of both stock markets was CNY 17.95 and CNY 17.71 respectively, and the average P/E Ratio was 39.46 and 46.84 by July 31. Compared with the early July, there are both massive increase, but earnings per share almost remained still. In this rising tide, bank, metal and real estate all showed brilliant performance. The new issues were brisk, and 16 new shares were listed in this month. Shares issued by Nanjing Bank, Ningbo Bank, Guangdong Ronsen Super Micro-Wire Co., Ltd. and Sichuan Gaojin Food Co., Ltd., which all ended subscription on the same day, froze capital of CNY 2012.9 billion, and created a new record in freezing capital. In addition, the new individual and institutional investors for A shares, B shares and funds in Shanghai and Shenzhen Stock Exchanges amounted to 109.63 million accounts, rose by 2.72 million accounts compared with last month. It shows that the investors still expect a bull securities market.

2. Statistical Indicators

The relevant statistical indicators are listed in Table 2

Table 2

Indicator Name	SSE A Share	SSE B Share	SZSE A Share	SZSE B Share
Listed Company	722	47	550	45
ST	103	3	100	4
Total Capital (100 million shares)	14,370.63	382.62	2,848.24	454.59
Total Negotiable Capital (100 million shares)	2,747.90	112.86	1,338.90	129.51
Total Market Capitalization (CNY 100 million)	46,125.28	139.55	22,302.81	1,358.50
Market Capitalization(CNY 100 million)	187,898.76	498.59	45,702.44	4,859.92
Daily Total Turnover (CNY 10,000)	15,737,497.17	20,407.56	8,227,369.19	82,123.89
Daily Total Trade Volume (10,000 lots)	11,746.34	144.58	5,014.47	95.18
Average Earning per Share (CNY)	0.33	0.17	0.34	0.30
Average P/E	39.66	64.14	46.86	35.36
Average Market Price (CNY)	17.67	1.38	17.57	9.42

3. Significant Events on Stock Market in July

New Regulations on Reducing State-Owned Shares was exercised on July 6. The State-owned Assets Supervision and Administration Commission of the State Council and the CSRC have released the “Provisional Measures for the Administration of Transferring Shares of Listed Companies by State-owned Shareholders”, the “Provisional Regulations for the Administration of Acquiring Shares from Listed Companies by State-owned Companies”, and the “Provisional Measures for the Administration of the Logo of State-owned Shareholders of Listed Companies”.

Four new shares were listed on July 12. Shares issued by Nanjing Bank, Ningbo Bank, Guangdong Ronsen Super Micro-Wire Co., Ltd. and Sichuan Gaojin Food Co., Ltd., which all ended subscription on the same day, froze capital of CNY 2012.9 billion, and created a new record in freezing capital. This capital also exceeded CNY 100 billion beyond the current negotiable market capitalization in SZSE.

The closing prices of 265 shares went beyond the level of “530” before slump on July 23, approximately accounting for 19% of all traded A shares; 119 individual shares’ prices increased by over 15%, occupying 8.5% of all traded A shares, which means that 8.5% of individual shares have reached the 5000-point level of the SSE Composite Index.

The SZSE was actively preparing for the Growth Enterprise Market to accommodate to the requirements of implementing national Independent innovation strategy, General manager of the SZSE Zhang Yujun said on July 24.

The listed company of the Agent-based Share Transfer System, Guangdong China Sunshine Media Co., Ltd. (400003) received the IPO approval at the 92nd meeting of the IEC (the Issuance Examination Committee), which is the first successful case for share transfer in the Agent-based Share Transfer System.

III. Overview of Fund Market in July 2007

1. Summary

The market experienced structural changes, from general slump, to leading soar of heavy-weighted blue chip stocks, to rebound of stocks in SME Board, and finally recovery of those blue chips from second and third line.

As for the NAV of open-end fund, stock fund rose by 14.72%, index fund by 17.51%, stock-oriented hybrid fund by 13.98%, balance fund by 2.92% on average. The monthly average NAV of 40 closed-end funds increased 8.28%. The closed-end funds were obviously in a disadvantageous position this month, which can be mainly attributed to the contradiction between rapid recovery of market environment and rigid investment style. The issue of new funds kept steady in July. There were 4 new funds, amounting to 25.079 billion fund units, and the total raised capital reached CNY 25.079 billion. As for fund dividend, 46 funds distributed dividends this month, beyond previous months, including 40 open-end funds and 6 closed-end funds.

2. Statistical Indicators

Table 3 Growth Rate of Fund NAV in July 2007

stock fund rose by 14.72%, index fund by 17.51%, stock-oriented hybrid fund by 13.98%, balance fund by 2.92%

Stock-Oriented Hybrid Fund	Stock Fund	Balance Fun	Index Fund	Closed-End Fund
13.98%	14.72%	12.92%	17.51%	8.28%

Table 4: Fund NAV and Unit Size (by June 30)

Fund Type	Fund Number	NAV (CNY)	NAV Percentage (%)	Unit Size (Unit)	Percentage of Unit Size (%)
All	347	1,799,073,391,992.76	100	1,258,460,396,593.06	100
Closed-End Fund	40	201,889,306,988.97	11.22	73,200,000,000.00	5.82
Open-End Fund	307	1,597,184,085,003.79	88.78	1,185,260,396,593.06	94.18
Stock Fund	119	878,626,514,452.44	48.84	617,081,890,417.31	49.03
Index Fund	16	100,470,719,715.53	5.58	71,414,569,821.21	5.67
Stock-Oriented Hybrid Fund	54	365,318,369,097.07	20.31	286,758,556,785.02	22.79
Balance Fun	22	124,815,486,166.38	6.94	93,365,937,558.32	7.42
Bond-Oriented Hybrid Fund	8	9,521,948,750.73	0.53	7,251,810,862.73	0.58
Bond Fund	21	37,997,041,869.04	2.11	34,570,467,760.50	2.75
Short and Medium-Term Bond Fund	8	2,598,212,274.45	0.14	2,587,634,627.20	0.21
Principle-guaranteed Fund	6	10,354,559,570.44	0.58	6,300,583,321.94	0.5
Special Strategy Fund	2	3,435,646,815.92	0.19	1,883,359,147.04	0.15
Money Market Fund (Class A)	40	58,384,545,155.25	3.25	58,384,545,155.25	4.64
Money Market Fund (Class B)	11	5,661,041,136.54	0.31	5,661,041,136.54	0.45

Please read the copyright statement

3. Significant Events on Fund Market in July

The CSRC formally approved the issue of first classify fund, UBS SDIC Ruifu Classify Stock Securities Investment Fund on July 9. After five-year blocking of closed-end fund, Dacheng Selected Stock Fund, the first innovative closed-end fund, would be launched again.

Following promulgation of the QDII (Qualified Domestic Institutional Investors) details by the CSRC, QDII fund business formally made its debut on July 27. Both China Southern Fund Management Co., Ltd, and China Asset Management Co., Ltd. obtained the QDII qualification from the CSRC, and their funds became the first batch of QDII products.

On July 30, the SSE index created the new record high since May 30, and funds also performed well. As shown in the statistics on 293 non-money market funds, 95% of accumulated fund NAV has exceeded the accumulated NAV on May 29, the previous day of the great slump.

IV. Overview of Bond Market in July 2007

1. Summary

The T-bond yield curve of interbank bond market tends to be significantly flat in July 2007. The interest rate curve of financial bonds was also on a flat downward trend in the Mid-July, but the relevant adjustment range was narrower than that of T-bonds. The interest discrepancy of T-bonds and financial bonds leaped and then went back down to the historic average level. Enterprise bonds' response slightly lagged behind. Credit spreads continued to expand and interest rate of short-term financing bonds fluctuated within a narrow range. The curve had hardly change in the early and end of month, fundamental improvement needed to be made, bonds rebound would not stop temporarily, and policy was expected to be stable, which all provides sustainable promotion for rebound of bond market.

2. Statistical Data: Forecast of Bond Issue and Capital Supply in Three Quarters of 2007

Table 5

Issue Type	Forecasted (100 million)	Issued in July	To be Issued	Source	Size (CNY 100 million)
T-bonds	2100	600	1500	Commercial Banks	4800
Financial Bonds (including subordinate bonds)	3100	700	2400	Insurance Institutions	500
Enterprise bonds (separate bonds)	1000	74	926	Mature bonds	3443
short-term financing bonds	700	245	455		
Total	6900	1619	5281	Total	8743

3. Significant Events on Bond Market in July

The Standing Committee of the National People's Congress approved the proposal of the Ministry of Finance on purchasing foreign exchange by issuing special T-bonds of CNY 1550 billion, which aroused extensive concerns. Thus the concerned officer from the Ministry of Finance accepted the interview from Xinhua News Agency's reporter and gave a direct reply to a few highlighted issues on July 5.

In order to ensure the stable growth of basic currency and steadiness of interest rate of money market, the Central Bank of China issued central bills of CNY 10 billion on July 10. The People's Bank of China decided to raise interest rate on one-year RMB deposits and loans by 0.27% on July 20, 2007. Meanwhile, the State Council announced that the individual income tax on interest income from saving deposits is going to be reduced from 20% to 5% as of August 15, so as to moderately foster money credit and investment, adjust and stabilize the inflation, and generally remain the stable price level.

V. Overview of Warrants Market in July 2007

1. Summary

With the new record high of both Shanghai and Shenzhen stock markets, investors picked up their confidence, the earnings from stock market were obvious, while warrants market seemed to be unprofitable. Because the CSRC continued to give risk hints and strengthened the investors' risk education, the speculation in warrants market was restrained to some extent. Influenced by dividend increase, interest tax rise, expected rise in house price, etc., the monthly rise in real estate and finance warrants such as HQC1 and SFC1 exceeds 30%.

2. Statistical Data are Listed in Table 6

Table 6

Warrants Code	Warrants Name	Daily Average Trading Volume (100 million units)	Daily Average Turnover (CNY 100 million)	Daily Average Turnover Rate (%)	Negotiable warrants at end of period (100 million units)	Market Capitalization of Warrants at end of period (CNY 100 million)
03002	YGCI	0.6	18.61	20.02	2.98	102.73
58008	JTBI	1.9	17.47	74.49	2.55	25.69
58009	CWBI	0.25	5.67	16.13	1.55	37.87
031001	HQC1	0.35	12.04	23.26	1.5	56.19
580010	CWBI	8.06	37.87	63.72	12.65	65.75
031002	CFC1	4.35	29.76	54.35	8	61.05
580011	CWBI	1.36	14.57	75.58	1.8	21.56
580012	CWBI	0.41	6.93	76.54	0.54	9.79
580013	CWBI	4.61	28.08	63.35	7.28	47.15
031003	SFC1	1.01	17.14	48.39	2.09	41.71
031004	SFC2	0.56	12.06	53.8	1.04	24.15
580997	CMP1	128.84	106.83	200.28	64.33	35.19
038003	JTP1	11.57	32.57	182.78	6.33	16.2
038004	YGP1	6.58	26.69	210.18	3.13	11.37
038006	ZYP1	10.17	37.5	239.89	4.24	11.93
580989	JTP1	54.92	83.12	116.96	46.96	71.94
Total		235.55	486.91		1669.97	640.28
Mean		14.72	30.43	94.98	10.44	40.02

Ranges from July 1 to July 31

3. Significant Events on Warrants Market in July

Shanghai and Shenzhen Stock Exchanges released the circular on July 24 that all members shall ask the investors to sign the written Risk Disclosure Statement for Warrants before applying for purchasing warrants at the first time, so as to control warrants trading risk and maintain market trading order. As for investors failing to sign the written Risk Disclosure Statement for Warrants, members shall not grant the access to purchase warrants.

VI. Overview of Venture Capital Market in July 2007

1. Summary

Chinese venture capital market is remarkably brisk in July. On one hand, foreign investors have a quite optimistic view on China's economic growth potential, and Chinese government promotes innovation and encourages people to actively establish their own business, which brings huge development space for venture capital. Thus many foreign venture capital investors made investments in China's market in July. On the other hand, China's government also calls on development and expansion of private capital market, and released relevant regulatory provisions and policies to protect the legal rights and interests of private capital market, which creates a favorable development condition for domestic venture capital. Hence, the investment, financing, and merger depending on China's private capital are all quite brisk, and the investment focuses on high-tech projects, cultural communication industry, internet websites, internet games, venture funds, etc.

2. Significant Events on Venture Capital Market in July

IDG and Accel jointly raised USD 510 million to establish the biggest growth fund in China with 11-year investment cycle on July 2, which would be used to invest in domestic enterprises with rapid development.

CDC invests USD 100 million in CDH Fund and CITIC fund on July 4, which causes China's private capital market to exceed USD 2 billion and CDC's investment in China amount to USD 2 billion.

Sequoia Capital China raised 10-year Sequoia venture capital fund II and Sequoia growth fund I amounting to USD 250 million and USD 500 million respectively, and their cycles on July 6.

The Tsing Capital launched the third China Environment Fund III on July 10, estimated to raise capital of USD 150 million.

A conservative dominant position, IBM has raised USD 180 million on July 11, preparing for stepping toward the Chinese venture capital market.

The Ministry of Finance released an announcement that the first national venture capital guide fund has made its debut on July 16, which was jointly launched by the Ministry of Finance and Ministry of Science and Technology, and the start-up fund of CNY 100 million at the early stage came from the central finance. The American venture capital company, BroadWebAsia (BWA) simultaneously invested two video websites in China: Mofile and HUBOTV, and promoted the strategic ally of these two websites, expecting to occupy a dominant position in video field, the CEO Daniel said.