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Content Overview:

- The CPI hit a 10-year record high this October. Excess liquidity remained significant. The central parity rate of CNY versus USD broke 7.5, opening at 7.4938, which is the 62nd new high this year.
- After surging to strike a fresh high of 6200, the SSE Composite Index fell to 5400. Individual stocks both across market cap and industry groupings performed quite differently.
- As the stock market suffered from huge fluctuations, investors sought refuge in closed-end funds. Fund investors should therefore regard closed-end funds as an investment priority.
- Due to numerous bond issues, bond market failed to rebound in October.
- All put warrants suffered plunges in value at the end of October. The SZSE altered the CIMC ZYP warrants on October 30th, so that there were only upward limits.
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- Support has increased again in China's venture capital circle for the establishment of a Growth Enterprise Market (GEM). Many Chinese science & technology enterprises are currently listed overseas.

I. Overview of the Macroeconomy for October 2007

1. Summary

Overall, the macroeconomy remained stable in October, but it was not without problems. The economic indicators showed that the macroeconomic development of the first three quarters fell within market expectations. A series of adjustment policies on the total volume and structure kept the economy from overheating into an excessively rapid rise. The GDP rose 11.5% year-over-year in the first three quarters, 0.7% higher than last year. The contribution rates for consumption, investment and external demand to economic growth were 37.0%, 41.6% and 21.4% respectively in the first three quarters. In addition to the great contributions of export and investment to the economy, consumption continues to enjoy an increasing influence on economic growth. Due to the pressure created by the price increase in refined oil, the CPI for 2007 hit a 10-year record high this October, rising to 6.5% year-over-year, thus keeping the current inflation pressure high.

Industrial production continued to rise rapidly, with upper-chain industries becoming increasingly profitable in the third quarter. The value-added by industries above the designated size increased 18.5% over the first three quarters (18.9% in September), which is 1.3% higher than the year-over-year growth last year. Enterprise profits increased massively between January and August with industrial enterprises above the designated size realizing net profits of CNY 1562.3 billion, a 37.0% rise year-over-year. Real estate development investment rose 30.3% to CNY 1681.4 billion over the first three quarters, indicating a further rise from the torrid 28.5% growth exhibited in the first half of the year.

Despite a series of tight policies launched in the first three quarters, monetary credit is still rapidly growing, and excess liquidity remains significant. By the end of September, broad money (M2) increased 18.5% year-over-year, some 1.5 percentage points higher than the growth rate through the end of previous year. The balance of various loans of financial institutions was CNY 3360.2 billion higher than the beginning of year for a gain of CNY 642.2 billion year-over-year. The People's Bank of China raised the deposit reserve ratio seven times (from 9% to a total of 12.5%) as well as the benchmark interest rate on deposits and loans five

times (the rate on one-year deposits increased from 2.52% to 3.87% and the rate on one-year loans increased from 6.12% to 7.29%), and issued central bank bills worth CNY 3700 billion in the first three quarters. In addition, China issued special T-bonds of CNY 800 billion to expand the QDII quota, and took a series of measures to relieve the domestic excess liquidity, such as making overseas investments by institutions such as bank, allowing direct individual investments in Hong Kong's stock market and promoting the outflow of domestic capital. Nevertheless, China's excess liquidity has not been substantially amended and severe excess liquidity still exists in banking system. It is predicted that the relevant government departments will adopt various measures to tighten the liquidity, but the central bank may still raise interest rates in the fourth quarter.

On October 24, the central parity rate of the CNY versus USD broke 7.5, opening at 7.4938, climbing 72 basis points from the previous trading day, and made it the 62nd new high this year. The CNY has appreciated 10.45% against USD since foreign exchange reforms were initiated, and the appreciation of the CNY will continue to optimize China's foreign trade structure. This appreciation will not reduce the size of the foreign trade surplus but instead its growth which is expected to continue to fall in the fourth quarter. According to the research report released by the China Jiayin Investment Securities Company Ltd., the annual growth of foreign trade surplus is predicted to rise 50%, reaching USD 266 billion.

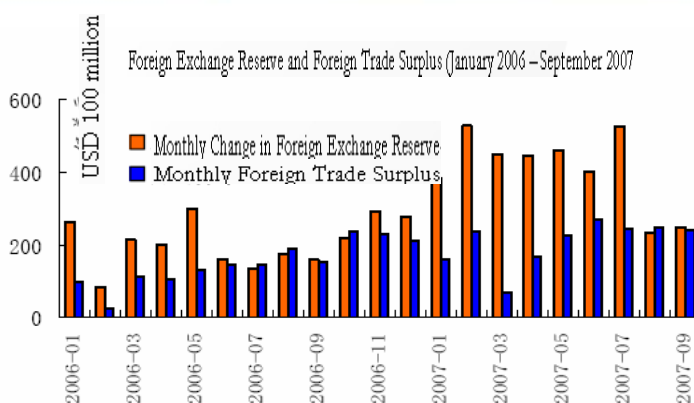
In general, business activity will continue to expand. The overall economy in the fourth quarter of 2007 will maintain the expansion that began in 2006, and the second cycle of rapid economic expansion will last throughout the whole of 2008.

2. Relevant Statistical Data and Charts

Table 1: Main Economic Variables of the First Three Quarters

	一季度	上半年	前三季度	三季比二季增幅变动
	11.1	11.5	11.5	0
Value added of industry	18.3	18.5	18.5	0
Profit of Industrial Enterprise ^{43.78}	42.1	37	-5.1	
Urban Fixed Asset Investment	25.3	26.7	26.4	-0.3
Growth in Actual Consumption	12.8	13	12.7	-0.3
CPI	2.7	3.2	4.1	0.9
PPI	2.9	2.8	2.7	-0.1
Growth in Foreign Trade Surplus	99	83	69	-14
Urban Residents' Income	16.6	14.2	13.2	-1
M2 Growth	17.3	17.1	18.5	1.4

Data source: National Bureau of Statistics of China
Research Institute of China Jianyin Investment Securities Co., Ltd.



Data source: Wind Info and Research Institute of China Jianyin Investment Securities Co., Ltd.

3. Significant Events

According to the statistics of China Banking Regulatory Commission on October 8th, 20 new rural banking financial institutions were established before July 10th, including 9 village banks, 4 loan firms and 7 rural mutual cooperatives, raising up to CNY 111 million in capital and absorbing deposits amounting to CNY 75.23 million.

The People's Bank of China announced on October 13th that it would raise the deposit reserve ratio by 0.5%, thus allowing the Central Bank to withdraw CNY 330 billion of capital through the banking system.

The 17th National Congress of Communist Party of China (hereafter referred to as the 17th National Congress) was held in Beijing from October 15th to October 19th.

Zhang Qi, vice president of Shanghai Branch of the Industrial and Commercial Bank of China (ICBC), speaking at the Retail Banking Forum in Shanghai on October 17th, stated that the Central Bank was jointly discussing with four major commercial banks the standard by which the second apartment would be judged and is expected to set up the unified standard for the four banks soon.

It was reported on October 18th that as the world's largest capital exporter since 2006, China contributed 17.3% to the international capital export market, followed by the oil-rich Middle East countries, which accounted for 15%.

According to the data released by the National Statistics Bureau of China on October 25, the average GNP growth in the first three quarters dropped 2.4% compared with the second quarter, and the CPI was also lower in September than in August.

II. Stock Market Overview for October 2007

1. Summary

The A-share market experienced both highs and lows this October. The government's high concern over the apparent asset price bubble, the policy guide of the 17th National Congress, disclosure of third-quarter macro data and quarterly corporate performance reports, US institutions' junior mortgage losses and market responses all aggravated the fluctuations in the A-share market. After surging to strike a fresh high of 6200, the SSE Composite Index massively corrected itself and fell to 5400. The A-share full-market composite index was 5.9% lower than September, but stock performance varied substantially across industries. Aside from such industries as finance, real estate, petroleum and natural gas, other industries suffered from large corrections. Large-cap blue chips showed relative resilience, only declining by 1.1%, while mid-cap and small-cap stocks went down greatly after the correction, falling 13.5% and 15.4% respectively in October. Large-cap stocks in finance, real estate and Sinopec achieved new record highs this month while many mid and small-cap stocks continued to fall, especially in the retail, automobile, media, navigation and electronic component industries. After the outsize crash on October 26th, 40% of A-shares were knocked down to the 4000 level. The stock index breached 6,000 this month, a feat mainly attributed to the return by super large-cap blue chip China Shenhua Energy Co., Ltd.

In terms of new issues, China's largest domestic integrated coal-based energy company, China Shenhua Energy Co., Ltd. was re-listed in the A-share market on October 9th, triggering a purchasing frenzy. The other leading company in that sector, PetroChina, returned to A-share market formally on November 5th. After the completion of the 4 billion A-shares issue by PetroChina, the top ten companies by H share market capitalization will have completed their A-share issues except for one, the China National Coal Group Corp. (1898.HK) which remains under operation, and will have raised CNY 362.286 billion in total. In the SME market, four new shares were issued online this month: ATM manufacturer Guangzhou KingTeller Technology Co., Ltd. (002177), intelligent building and security system constructor Shanghai Yanhua Smartech Co., Ltd. (002178), Guilin Guanglu Measuring Instrument Co., Ltd. (002175), and Jiangxi Special Electric Motor Co., Ltd. (002176).

A-share companies have disclosed their third quarterly performance reports for 2007, showing that net profits for the first three quarters rose 63.3% year-over-year on comparable basis, representing a slowdown when compared to the 70% growth in interim report in 2007. In terms of year-over-year growth for the third-quarter, net profits rose 47.7% overall and 55.7% excluding the financial industry. Mainline industries remain in the prosperity phase of business cycle. Although investment income remained high, main operations were the major contributor to the profits of the listed companies. Profit growth was unbalanced between industries, as the net profit growth of finance and telecommunication services was further enhanced in the third quarter, while bull commodities such as steel, petroleum, petrochemical and nonferrous metal suffered an apparent downturn. This became one of the main causes of the overall decline of performance growth in the third quarter. The growth of consumption, transportation and science & technology industries remained broadly unchanged as compared to the first half of the year. Analysts are now predicting that the industries with greatly increased earnings will be banking, securities and real estate finance.

2. Relevant Statistical Data and Charts

Table: Indicator of Stock Market's Overall Scale (by October 31st)

Name	SSE A Share	SSE B Share	SZSE A Share	SZSE B Share
Listed Company	834	51	626	51
IPO Company	0	0	0	0
Special Treatment	103	3	100	4
Total Capital (million shares)	1, 891, 578	38, 853	294, 077	46, 059
Total Negotiable Capital (million shares)	313, 528	11, 648	140, 353	12502
Total Negotiable Market Capitalization (CNY million)	6, 133, 949	18, 963	2, 636, 517	135, 889
Market Capitalization (CNY million)	29, 142, 283	60, 503	5, 075, 528	493, 798
Daily Total Turnover (CNY thousand)	118, 319, 825. 2	152, 120. 0	56, 003, 148. 8	1, 261, 020. 4
Change in Turnover Compared with Previous Day (%)	32. 13	3. 51	43. 22	17. 10
Daily Total Trade Volume	70, 111. 7	917. 9	30, 755. 3	1, 398. 5

(thousand lots)

Change in Trade Volume Compared with Previous Day (%)	31.13	13.35	42.49	17.06
Average Earning per Share (CNY)	0.28	0.13	0.18	0.12
Average P/E	55.18	98.67	97.01	89.58
Average Market Price (CNY)	18.81	1.51	18.81	9.75

3. Significant Events in the Stock Market

Hong Kong Commercial Daily reported on October 8th that Mainland China proposed legislation against the control of the A-share market by foreign capital. To protect domestic securities market from control by foreign investment companies, the government will enact relevant laws to resist the expansion of foreign capital and restrain excessive influence by them on the securities market. The officials of China's financial department have submitted applications for drafted files and proposals.

It was reported on October 9th that over 50% of market value and 65% of operating profit were created by the top 30 enterprises (by capitalization) in the A-share market.

Strongly driven by large-cap blue chips such as Sinopec, Baoshan Iron & Steel Co., Ltd. and China United Telecommunications Co., Ltd., the SSE Composite Index breached 6,000 on October 15.

It was reported on October 25th that after acquiring controlling stakes in Indonesia's PT Bank Halim and Mcau's Seng Heng Bank, the ICBC would conduct a bigger acquisition of Africa's largest bank – Standard Bank. The ICBC would pay up to USD 4 billion to acquire a 20 percent stake. It was said the acquisition was under negotiation.

PetroChina announced on October 29th that it would issue 4 billion A-shares at CNY 16.7 per share, which means that PetroChina's A-share IPO will raise up to CNY 66.8 billion, breaking the previous IPO record of CNY 66.582 created by China Shenhua Energy Co., Ltd.

III. Fund Market Overview for October 2007

1. Summary

The A-share market dramatically fluctuated this month. Fostered by a massive rise in overseas shares and H shares during the National Day holiday, the shares kept on soaring to hit 6,000. However, due to a rerise in deposit reserve ratio and return of the PetroChina, market liquidity became tense. The market began a strong correction on October 17th. As a result, the SSE Composite Index had dropped 502.43 by October 26th, a cumulative decrease of 8.25%. Led by the basic market, fund market also corrected to a lesser extent. The closed-end fund index in the SSE and SZSE fell 3.94% and 3.03% respectively, lower than the decrease in SSE Composite Index and CSI 300 index. The NAV of stock-oriented open-end funds and closed-end funds declined an average of 5.64% and 3.64% respectively. During the major correction on May 30th, the closed-end funds showed far better resilience than open-end funds, indicating that investors may have considered the closed-end funds a so called “safe harbor” in the large fluctuations. We believe that the market will not suffer a significant decline despite fluctuations in the fourth quarter and that fund investors can make closed-end funds a priority.

The top five closed-end funds by rise were Jiujiu Fund (jumped 22.07%), Xinghua Fund (17.29%), Tianyuan Fund (16.97%), Taihe Fund (16.91%) and Tongqian Fund (15.95%). The closed-end funds gained CNY 66.209 billion of net earnings in the first half of 2007, 85% of which was distributable earnings, amounting to CNY 56.097 billion. The overall NAV of open-end funds rose slightly in October, with stock-oriented funds almost balancing their rises and falls, bond-oriented funds steadily rising, and money market funds continuing the great increases they enjoyed in September.

Three new China QDII equity funds were established this month: the Enhanced Global Equity Fund on the 9th, the Harvest Overseas Stock Fund on the 12th and China International Asia-Pacific Advantage Stock Fund on the 23rd. The Enhanced Global Equity fund invests in global stock markets, with investment in equity securities such as stock not less than 60%. It mainly carries out bottom-up stock selection, and chooses industries and companies with good growth potential which are undervalued from international view. Thanks to the new investment concept, the fund generated an investor frenzy. This brings the total number of fund companies obtaining their QDII qualification to eleven.

2. Relevant Statistical Data and Charts

Table 3: Monthly Fund Issue

Fund Name	Fund Type	Fund Management Company	Account Number (Account)	Establishment Size (million)	Establishment Date	Custodian Bank
China Enhanced Global Equity Fund	Stock	China Asset Management Co., Ltd.	1,836,997	30,056	October 9 th , 2007	China Construction Bank
Harvest Overseas Stock Fund	Stock	Harvest Fund Management Co., Ltd. is	1,790,435	29,750	October 12 th , 2007	Bank of China
China International Asia-Pacific Advantage Fund	Stock	China International Fund Management Co., Ltd	1,994,190	29,572	October 23 rd , 2007	Industrial and Commercial Bank of China
Total Issue Size				89,378		

3. Significant Events in the Fund Market

The China Business News reported on October 8th that the average return of 138 domestic open-end stock funds is 133.06% year-to-date, the SSE Composite Index has risen 107.53%, and the income of stock funds was 25% higher than that of large-cap index at the end of September.

Xinhuanet reported on October 9th that the ICBC Credit Suisse Asset Management Co., Ltd. has been formally approved to conduct overseas securities investment management business by the CSRC, making it the first banking fund company to obtain QDII qualification in China after the implementation of the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors on July 5th.

China QDII equity fund - Enhanced Global Equity Fund was formally set up on October 9th.

The third QDII equity fund - Harvest Overseas Stock Fund generated an investor frenzy on the first trading day, October 10th. The Shanghai Securities News reported that the subscribed capital amounted to CNY 70 billion, reaching a high on its first trading day, second only to the initial subscription of China International Domestic Demand Dynamic Stock Fund which frothed up to CNY 90 billion on April 10th. Considering the foreign exchange quota of Harvest Overseas Stock Fund is USD 4 billion, the placement percentage is expected to reach about 42%.

It was reported on October 22nd that in order to standardize fund sales and protect investors' legal interests, the CSRC recently launched two new measures concerning fund sale supervision, the Guiding Opinions on the Internal Control of Sales Institutions of Securities Investment Funds and the Guiding Opinions for the Applicability in the Sales of Securities Investment Funds. The industry participant held that strengthening supervision during the rapid rise in fund investment could effectively curb the behaviour of fund selling institutions, and further improve investor knowledge in the funds by institutional construction of the funds, thus reducing the risks of irrational purchase.

It was reported on October 23rd that the issue of open-end funds hit a record high in the previous week. On October 15th, the China International Asia-Pacific Advantage Fund, a QDII fund with unpredictable market income, obtained a subscription of CNY 116.3 billion in one day, some CNY 23 billion higher than the previous record.

IV. Bond Market Overview for October

1. Summary

Due to numerous bond issues, bond market failed to rebound in October. Aside from the central bank bills, bond of CNY 190.94 billion were released in the primary market and total issue volume has remained low since March. However, when considering the hedging factor of matured bonds, the net issue reached about CNY 157.8 billion in October, only slightly lower than May, June and August. Due to big issue sizes and various impacts on bond market liquidity, most financial bond issues failed to attract enough subscriptions or were delayed.

Two T-bonds were issued in October, the 11th issue and 17th issue in 2007, both mid and short-term bonds, which may be attributed to the recent issue of special T-bonds that satisfied the demand for long-term bonds. Seven financial bonds were issued this month, including three floating rate bonds, dominated by mid and short-term bonds. A handful of short-term financing bonds were also issued in October. Meanwhile, due to the deficiency in short-term capital, the interest rate of short-term financing bonds has greatly increased, moving about 50 basis points higher than the yield at the end of September. The issue of enterprise bonds dropped sharply from September, fell to a 10-month low. In addition, the China Banking Regulatory Commission released its Opinion on the Effective Prevention of Risks Arising from Guarantees on Enterprise Bonds this month, which required that financial institutions in the banking sector stop providing guarantees for enterprise bonds that are mainly issued for a particular project. In principle, banks were also prohibited from providing guarantees for other financing-based projects such as other purposed enterprise bonds, corporate bonds, trust plans and benefit plans of insurance companies.

Various bond indexes performed differently this month. The SSE Enterprise Bond suffered the biggest fall, 0.4%, followed by the Exchange T-bond index, 0.29%, while floating rate bonds and policy bank financial bonds showed a certain rebound compared with September, rising 0.06%. Overall, the bond market experienced a relative slump. In terms of transaction volume, Exchange Enterprise Bonds increased by five times when compared with September. Only short-term financing bonds were trading briskly this October, as other bond transactions, namely bond repos, T-bond, enterprise bonds and financial bonds all shrank instead; enterprise bond repos, in particular, significantly decreased. As the yield curve changes (Chart 16) show, the

yield curve seemed quite flat in October, and the rise varied inversely with the term. On average, the short-term, mid-term and long-term bonds rose 22, 15 and 2 basis points respectively. The mid and short-term financial bonds (one to five years) gained a significantly higher yield than September, which may be mainly attributed to the impact of liquidity, while other mid and long-term bonds remained broadly unchanged. The great rise in short-term interest rate in the financial bond yield curve aggravated the flatness of yield curve.

2. Relevant Statistical Data and Charts

Table 4: Bond Issue Information of Primary Market in October

Type	Issue Volume	Issue Value (CNY million)	Ratio of Issue Value (%)
T-bonds	2	57,580	15.86
Enterprise Bonds	4	2,800	0.77
Financial Bonds	10	100,660	27.73
Central Bank Bills	9	170,000	46.83
Short-term Financing Bonds	18	27,980	7.71
Securitized Assets	4	4,021	1.11
Total	47	363,041	100.00

Data source: Wind Info and Research and Development Center of China Merchants Securities

Table 5: Change in Bond Index and Transaction Turnover in October

Name	Closing	Change (%)	Transaction Turnover (CNY million)	Change in Transaction (%)
SSE T-bond Index	109.948	0.06	9922.372608	3.47
Enterprise Bond Index	114.034	-0.40	2288.061184	462.14
Convertible Bond Index	5216.639	-6.59	2250.482176	-38.72
SSE T-bond Repo			1726775000	-25.46
SSE Enterprise			5916000	-77.14

Bond Repo				
Interbank T-bonds			1407606700	-21.84
Interbank Financial Bonds			32223314000	-8.28
Interbank Enterprise Bonds			414433000	-14.85
Central Bank Bills			6320820000	-0.60
Repo			39278170200	-31.69
Short-term Financing Bonds			1345885400	13.18

3. Significant Events in the Bond Market

The Securities Times reported on October 8th that the first SME corporate bonds were rejected at the shareholders' meeting due to their high interest rates. Experts held that the small enterprise had a poor credit rating and high operating fluctuation, so high interest rate was inevitable.

The Industrial Bank announced on October 9th that it proposed to issue CNY 50 billion financial bonds with residual maturity of less than ten years to public. The bonds would be issued in two batches, with the first batch to be issued this month, and the second batch to be scheduled to issue between January and February of next year. The raised capital would be mainly invested in loan and bond businesses dominated by mid and long-term loans.

The first issue of corporate bonds released by the China Yangtze Power Co., Ltd., the first corporate bond in China's capital market, was listed at the SSE on October 12th. The debut of the bond was recognized as great progress for the capital market and marks the formal start of corporate bonds.

Shaanxi Expressway Construction Group announced on October 16th that it would issue 10-year enterprise bonds amounting to CNY 500 million between October 16th and 18th, at a coupon of 5.7%, which was confirmed by adding 160 basis points to the average one-year Shanghai interbank offered rates, or SHIBOR, in the five trading days before issue.

V. Overview of Warrants Market in October 2007

1. Summary

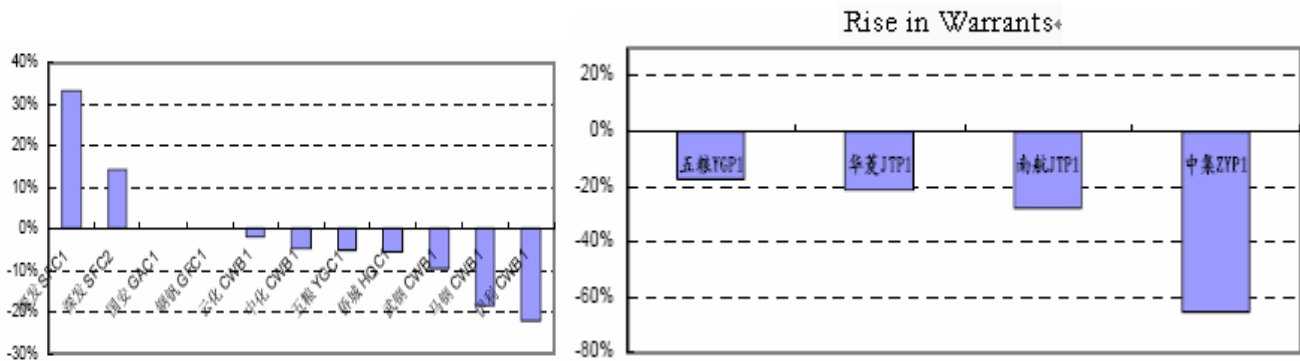
The A-share market experienced amazing fluctuations in October. The SSE Composite Index has long been near 6200 but subsequently retreated to 5400. In this case, underlying stocks of warrants generally suffered decline, which may well continue. SFC1 and SFC2 (of Shenzhen Development Bank, SDB) soared at end-October. Since SDB has brilliant prospects, the underlying stocks have a certain amount of room to rise, and thus the relevant warrants possess investment value. Due to its short term, the SFC1's underlying stocks may fail to reach the target price, and as short-term risks exist, only the SFC2 is recommended to investors.

Owing to severe fluctuation in the A-share market this month, most underlying stocks of warrants were declining. Maanshan CWB1 and Wuhan CWB1 both showed a short-term weak rebound in mid-October, but then dropped with the underlying stocks. Among call warrants, only two warrants of SDB (A stock) rose sharply, while warrants in other sectors fell to various extents. Newly-listed Guoan GAC1 had a significantly rising premium rate, 83.76%, the highest in call warrants. Wuliang YGC1 had the lowest premium rate, at -18.95%. The premium rate of other call warrants remained between -10% and 10%. The Shenzhen Expressway equity warrant, Shengao CWB1, began trading at the SSE on October 30th, and made three consecutive limit-ups, with the price only stabilizing after the limit-up fell to meet our expectations. It should be noticed that the exercise period of Maanshan CWB1, Qiaocheng HQC1 and Yili CWB1 all start in November. This is the first time for Maanshan CWB1 to be exercised, with its other exercise scheduled in November 2008. The exercise of currently valueless CIMC ZYP1 will start next month, and investors should carefully avoid taking risks here. Among mid and long-term call warrants, we still believe that Wuhan CWB1 is the most valuable, considering its high leverage and good growth of its underlying stocks. As for Guoan GAC1, we recommend holding the underlying stocks rather than warrant itself, because the income of underlying stocks should perform better than the warrant for some time. In terms of mid and short-term call warrants, thanks to some deep discounts, Wuliang call warrants enjoy huge arbitrage space as well as better protection than its underlying stocks. After all, warrants obtain higher income than underlying stocks during decreases in the discount rate. Thus we continue to recommend investments in Wuliang YGC1.

2. Relevant Statistical Data and Charts

Chart 2: Comparison of Rise in Call Warrants

Chart 3: Comparison of Rise in Put Warrants



3. Significant Events in Warrants Market

Through October 19th, brokers had created more than ten billion uncanceled CSA JTP, amounting to 10.377 billion in all. From July 3rd to 24th, 7 brokers cancelled a total of 553 million CSA JTP. The total CSA JTP amount to 11.777 billion at present, about 8.41 times the initial issue amount and 2.69 times the total number of its underlying stocks.

It was reported by the Panorama Network Co., Ltd. on October 25th that the SZSE would release new regulations in response to the massive fluctuation in deep-out-of-the-money put warrants and excessive speculation. The SZSE recently released a circular adjusting the limit up/down of CIMC ZYP; as of October 30th, only rises, not drops, will be limited.

All put warrants suffered plunges by October 30th, decreasing on average by 16.27%. The drop in CIMC ZYP reached 32.94%, while that of CSA JTP, Valin JTP and Wuliang YGP was about 10%. It is widely thought that the new regulation of the SZSE on the limit-up of put warrants resulted in a marked decrease in speculation of put warrants in the SSE and SZSE.

VI. Overview of Venture Capital Market in October 2007

1. Summary

The China Venture Capital Forum 2007 - High Level Forum on Innovative Economy and Venture Capital (in the Middle Area) jointly organized by the China Venture Capital Research Institute and the Hefei People's Government, among others, was held in Hefei, Anhui from October 16th to 18th. Government departments, renowned domestic and overseas venture capital institutions and financial intermediaries were invited to the forum to take part in in-depth discussions, covering the enhancements to regional economic competitiveness, merger opportunities in the middle area, investment strategies by venture capitalists on enterprises in middle area, and more.

China's venture capital circle is increasingly calling for the establishment of a Growth Enterprise Market (GEM). Two economic phenomena that have existed in recent years have aroused concern in government and economic circles. The first is that a high quality group of the most viable and innovative enterprises representing China's new economy are listing in overseas capital markets (especially Nasdaq), including the three largest internet portal websites (Sina, NetEase and Sohu), the world's largest Chinese search engine (Baidu), and well-known innovative Chinese enterprises such as Focus Media, Shanda, CTRP, Homeinns, Suntech – Power and New Oriental. The market value of the above enterprises amounts to some CNY 200 billion. The second is that major foreign private equity investment institutions are swarming into China, such as venture capital and enterprise merger funds, which not only appeared in numerous small and medium-sized high-tech enterprises, but also expanded into key industries as well as large and medium-sized state-owned enterprises which influence the lifeblood of our national economy. A program to resolve these issues that threaten national economic security is to establish China's GEM with international competitiveness as soon as possible by drawing on Nasdaq (US) or AIM (UK).

This month the popular sector for venture capital remained in education. CDH Investments formally announced its investment of USD 10 million in the Xueda Education Technology Co. Ltd., which was another huge financing in an education enterprise, following Huayu International Education Group, Juren Education Group, and others. It was said that Xueda Education Technology Co. Ltd. has proposed a schedule in which it lists in 2009.

The most outstanding issues this month were the many Chinese science & technology enterprises that

became listed overseas. The China Digital TV Holding Co., Ltd. (STV) was listed at New York Stock Exchange (NYSE) on October 5th. Kingsoft Co., Ltd. (3888.HK), a domestic cyber games and software provider, was listed at Stock Exchange of Hong Kong Limited at 10:00 AM on October 9th. Alibaba, a well-known e-commerce website issued shares publicly in Hong Kong on October 23rd. The Noah Education Holding Co., Ltd., a domestic renowned education enterprise, was formally listed at the NYSE on October 19th. The Longtop Group, a software development and solutions provider, was formally listed at the NYSE on October 24th. Such a series of events reflects the growing trend for domestic private high-tech enterprises to leave the Valley of Death and obtain broader development space elsewhere.

2. Significant Events in Venture Capital Market

The Ambow Education Group announced on October 9th that it obtained venture capital of USD 54 million. While it was led by the Macquarie Bank Group, existing shareholders Huawei and Cisco as well as new investor Avenue Capital participated in this round of financing.

It was reported on October 18th that the WI Harper Group established a new fund of USD 150 million recently, which focused on the application of new technology and business modes on traditional circles.

The third China Forum on Innovative Economy and Venture Capital (in Middle Area) concluded in Hefei, Anhui on October 18th. It was jointly organized by Anhui Provincial People's Government, Hefei Municipal People's Government, Development Research Center of Anhui Provincial People's Government and China Venture Capital Research Institute.

The Huiyan Investment Fund, jointly funded by Pudong New Area and five private enterprises was formally set up in October 22nd, with a capitalization amounting to CNY 350 billion.

The Century21 China Real Estate announced that Avenue Capital invested USD 52 million on October 24th, the largest international private equity investment obtained by Chinese real estate agency sector to date.