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I. China's macroeconomic situation in 2009 and the first half of 2010

In 2009, China's economic development suffered the most difficult time since the new century. China's economy was severely impacted by spreading international financial crisis and deep recession of the world economy: exports dropped drastically. Many businesses struggled for survival, and some simply ended up with bankruptcy. There was a significant increase in the size of unemployed population and many migrant workers returned home. The country’s economic growth declined sharply. Facing numerous difficulties, the Chinese government’s package program was resolutely carried out in response to the global credit crisis in order to maintain a steady and rapid economic development. We improved and reinforced the macroeconomic control, adopted proactive fiscal as well as monetary policy and speeded up the transformation of China’s growth mode, taking lead in the world to achieve the economic rebound, and our national economy saw a good momentum featuring sustained growth, optimized structure, higher efficiency and improved livelihood; new progress was made in all social undertakings, marking great accomplishments of China’s reform and opening up as well as socialist modernization drives.

In 2009, the Chinese government had focused on the following tasks: 1) Improving and reinforcing its macro-control efforts to promote steady and rapid economic development; 2) Restructuring in the economy to consolidate the foundation for long-term development; 3) Insisting on deepening reform and opening up to constantly enhance the systems and mechanisms conducive to scientific development; and 4) Striving to improve people's livelihood to speed up civil undertakings. Owing to the above efforts, China maintained rapid growth in 2009, with its GDP up by 8.7 percent, showing a good overall trend in national economic and social development. However, the year 2009 also saw a clear trend of global deflation and rising trade protectionism, leaving the external economic circumstances more challenging with significantly increased uncertainty. Affected by the international financial crisis, the Chinese economy suffered a continuous drop in economic growth rate, with its financial revenue declined while expenditure increased. Farmers also found it more difficult to increase their incomes in a constant manner.

In 2009, the overall situation of China's macroeconomic performance was mainly reflected as follows:

The whole year’s GDP reached 33.5353 trillion yuan, an increase of 8.7 percent over the previous year. To be specific, the added value from the primary industry, the secondary industry and the tertiary industry respectively amounted to 3.5477, 15.6958 and 14.2918 trillion yuan, or 4.2 percent, 9.5 percent and 8.9 percent in the total proportion.

1. The agricultural production enjoyed continued and stable development, with an increase in the food output over six consecutive years. The grain output totaled 530.82 million tons in 2009, 2.11 million tons more over the previous year, or an increase of 0.4 percent.

2. Industrial production growth slowed down while corporate profits rose rapidly. The annual added value of enterprises above the designated size was up by 8.3 percent over the previous year, while the growth rate down by 4.6 percentage points over the previous year. From an ownership perspective, the state-owned and state holding enterprises increased by 6.9 percent; collective enterprises increased by 10.2 percent; joint-stock enterprises increased by 13.3 percent; foreign as well as Hong Kong, Macao and Taiwan invested
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enterprises increased by 6.2 percent. Heavy industry increased by 11.5 percent, while light industry increased by 9.7 percent. The total profit of enterprises above the designated size across the country reached 2.5891 trillion yuan, up by 7.8 percent over the same period in the previous year, with the growth rate up by 2.9 percentage points over the previous year.

3. Domestic market sales grew rapidly, while urban and rural consumer demand rose in a slower lane. Throughout the year, the total retail sales of consumer goods reached 12.5343 trillion yuan, up by 15.5 percent over the previous year, with the growth rate decreased by 15.5 percentage points. In comparison between urban and rural areas, retail sales of consumer goods in urban areas amounted to 8.5133 trillion yuan, up by 15.5 percent, with the growth rate decreased by 6.7 percentage points over the previous year; retail sales of consumer goods at and below county level accounted for 4.021 trillion yuan, up by 15.7 percent, with the growth rate decreased by 5.0 percentage points over the previous year. In respect of different industries, the retail sales of wholesale and retail consumer goods amounted to 10.5413 trillion yuan, up by 15.6 percent, with the growth rate decreased by rate 5.9 percentage points over the previous year; that of accommodation and catering industries amounted to 1.7998 trillion yuan, up by 16.8 percent. The sales of other industries amounted to 193.2 billion yuan, an increase of 2.5 percent, with the growth rate decreased by 22.2 percentage points over the previous year.

4. Investment took a major step forward and got better structured. Annual investment in fixed assets reached 22.4846 trillion yuan, up by 30.1 percent over the previous year, with the growth rate increased by 4.6 percentage points over the previous year. Urban fixed-asset investment accounted for 19.4139 trillion yuan, up by 30.5 percent, with the growth rate increased by 4.4 percentage points; rural investment accounted for 3.0707 trillion yuan, up by 27.5 percent, with the growth rate increased by 6.0 percentage points. As for investment in cities and towns, investment in the first industry, second industrial and tertiary industry respectively amounted to 0.3373, 8.2277 and 10.8489 trillion yuan, up by 49.9 percent, 26.8 percent and 33.0 percent.

5. The markup slackened and gradually came down. The annual CPI fell by 0.7 percent, down by 5.2 percentage points over the previous year. Fixed-asset investment price fell by 2.4 percent. PPI fell by 5.4 percent, among which capital goods price fell by 6.7 percent, consumer goods price fell by 1.2 percent. The purchase prices of raw materials, fuel and power fell by 7.9 percent. The prices of agricultural products and agricultural means of production fell by 2.4 percent and 2.5 percent respectively.

6. Imports and exports dropped drastically, while the trade surplus tumbled. The annual imports and exports of goods totaled 2.2072 trillion USD, down by 13.9 percent over the previous year, among which exports and imports of goods accounted for 1.2017 and 1.0056 trillion USD respectively, down by 16.0 percent and 11.2 percent over the previous year. The balance (exports minus imports) amounted to 196.1 billion USD, a decrease of 102 billion USD compared to that in the previous year.

7. The overall urban employment remained stable, with urban as well as rural resident income continued to increase. 11.02 million new jobs were created in cities and towns throughout the year, and the registered urban unemployment rate was 4.3 percent at the end of the year, approximately flat with that of the previous year. The annual disposable income of urban residents amounted to 17,175 yuan, an actual growth rate of 9.8 percent. The per capita net income of rural residents amounted to 5,153 yuan, an inflation-adjusted increase by 8.5 percent. By the end of the year, the balance of resident savings deposits totaled 26.4761 trillion yuan, up by 19.5 percent over the previous year.
8. The growth rate of broad money supply accelerated, while the amount of loans increased considerably. By the end of the year, the balance of broad money (M2) was 60.6 trillion yuan, with its growth rate accelerating by 9.9 percentage points to up by 27.7 percent over the previous year. The balance of narrow money (M1) was 22 trillion yuan, with its growth rate accelerating by 23.3 percentage points to up by 32.4 percent. The balance of currency in circulation (M0) amounted to 3.8 trillion yuan, with its growth rate accelerating by 0.9 percentage points to up by 11.8 percent. The balances in RMB of loans from and of deposits at financial institutions accounted for 42.6 and 59.8 trillion yuan respectively, up by 10.5 and 13.1 trillion yuan.

In 2010, the Chinese economy encountered a very complicated situation, faced with all kinds of positive changes and negative effects, interwoven short-term problems and long-term paradoxes, interacting domestic and international factors as well as increased dilemmas concerning economic and social development. Given the new internal as well as external environment, in the first half of 2010, the Chinese government continued to intensify its efforts in macro-control to maintain stable and rapid economic development by accelerating the transformation of growth mode and economic restructuring, promoting the reform and opening up and proprietary innovation, improving people's livelihood and fostering social harmony and stability. With comprehensive progress made in socialist economic, political, cultural, social and ecological civilization drives, China speeded up the process of building a moderately well-off society, striving for sound and rapid economic as well as social development.

The overall situation of China's macroeconomic performance in the first half of 2010 was mainly reflected in the following aspects:

In the first half of 2010, China’s GDP was 17.284 trillion yuan, up by 11.1 percent calculated against comparable prices, with its growth rate rising by 3.7 percentage points over the same period of 2009, among which the added value of the primary, secondary and tertiary industries respectively amounted to 1.3367, 8.583 and 7.3643 trillion yuan, up by 3.6 percent, 13.2 percent and 9.6 percent respectively.

1. Agricultural production remained stable, with the summer grain output standing at the same level with that of the previous year. China's summer grain output accounted for 123.1 million tons, down by 390,000 tons, or 0.3 percent, over the previous year, a good harvest ranking third since 1949. In the first half of 2010, poultry and meat output amounted to 37.13 million tons, up by 3.5 percent year on year, of which pork production accounting for 24.55 million tons, an increase of 3.6 percent.

2. The overall industrial growth was gratifying, with the corporate profitability greatly improved. In the first half of 2010, the added value of enterprises above the designated size across the country grew by 17.6 percent over the previous year, with its growth rate rising by 10.6 percent over the same period last year. From January to May, the total profit of enterprises above the designated size across the country reached 1.5397 trillion yuan, up by 81.6 percent year on year. 36 out of the 39 major industries saw a year-on-year profit rise, while one industry turned losses into gains.

3. The growth rate of fixed-asset investment stabilized at its high, accompanied by booming investment in real estate. In the first half of 2010, the country’s fixed-asset investment totaled 11.4187 trillion yuan, up by 25.0 percent year on year, among which urban and rural fixed-asset investment respectively stood at 9.8047 and 1.614 trillion yuan, up by 25.5 percent and 22.1 percent. In respect of urban fixed-asset investment, the investment growth in the primary, secondary and tertiary industries respectively accounted
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for 17.8 percent, 22.3 percent and 28.4 percent. In the first half of the year, the investment in real estate totaled 1.9747 trillion yuan, an increase of 38.1 percent.

4. Sales in the domestic market took a major step forward, with popular goods constantly selling like hot cakes. In the first half of 2010, the country’s retail sales totaled 7.2669 trillion yuan, up by 18.2 percent year on year. Based on locations of the premises, the retail sales of consumer goods in urban and rural areas respectively accounted for 6.2659 and 1.001 trillion yuan, up by 18.6 percent and 15.6 percent; Divided by consumption patterns, the retail sales of food and beverage was 818.1 billion yuan, up by 16.9 percent, while that of goods reached 6.4488 trillion yuan, an increase of 18.4 percent, among which the retail sales of above-norm industrial enterprises (units) accounted for 2.6465 trillion yuan, up by 30.0 percent. Consumption fads increased rapidly.

5. CPI rose moderately while PPI rose significantly year on year. In the first half of 2010, CPI rose by 2.6 percent on a year-on-year basis, 2.5 percent in urban areas while 2.8 percent in rural areas, and fell by 0.6 percent in June on a month-on-month basis. In the same period, PPI rose by 6.0 percent on a year-on-year basis and fell 0.3 percent in June on a month-on-month basis. Prices of raw materials, fuel and power rose by 10.8 percent year on year.

6. Foreign trade recovered at full speed while the trade surplus shrank apparently. In the first half of 2010, China’s imports and exports totaled 1.3549 trillion USD, up by 43.1 percent year on year, among which the exports accounted for 705.1 billion USD while the imports up accounted for 649.8 billion USD, respectively up by 35.2 percent and 52.7 percent, with a trade surplus of 55.3 billion USD.

7. Income of urban and rural residents continued to grow, with a stable growth momentum in living consumption expenditure. In the first half of 2010, the average urban household income reached 10,699 yuan, in which the disposable income of urban residents amounted to 9,757 yuan, up by 10.2 percent year on year, with an inflation-adjusted growth rate of 7.5 percent.

8. The growth rate of money supply began to drop from its peak, while the amount of loans in RMB increased at a lower speed year on year. By the end of June, the balance of broad money (M2) was 67.4 trillion yuan, up by 18.5 percent year on year. The balance of narrow money (M1) was 24.1 trillion yuan, up by 24.6 percent. The balance of currency in circulation (M0) amounted to 3.9 trillion yuan, up by 15.7 percent. The balance in RMB loans from the financial institutions accounted for 44.6 trillion yuan, an increase of 4.6 trillion yuan compared to the year beginning, which was 2.7 trillion yuan less than the same period last year; the balances in RMB deposits at financial institutions accounted for 67.4 trillion yuan respectively, an increase of 7.6 trillion yuan compared to the year beginning, which was 2.3 trillion yuan less than the same period last year.

At present, our economic development is still challenged by a complicated context at home and abroad, while the economic operation continues to struggle against all kinds of dilemmas and difficulties. China will continue to implement a proactive fiscal policy and a moderately easy monetary policy to maintain the consistency and stability of macromacroeconomic policies as well as to enhance the relevance and flexibility. In policy implementation process, we will leverage the intensity, set the pace and grasp the essentials with focused efforts to promote economic restructuring, urge transformation of the growth mode and deepen reform of the economic system for steady and rapid economic development.
II. China's capital market development in 2009 and the first half of 2010

Since 2009, we have been unswervingly strengthening the infrastructure of China’s capital market system and conscientiously maintaining the stability of market operation for improved quality of listed companies, expanded group of institutional investors as well as improved market system and structure to better support the economic development. Focused on priorities such as strengthening market supervision and promoting healthy growth of market players, we took the initiative to properly address the legacy problems impeding the sound market growth over time; Meanwhile, we urged the reform of the securities issuance mechanism, promoted the building of the market systems and invigorated the innovation of products and businesses, with timely introduction of the GEM accompanied by full-ranged regulation of the market, making gradual progress in opening up China’s capital market and the securities industry. Based on these efforts, the capital market has embraced new achievements.

Ushering into the year 2010, we noticed that the internal as well as external environment for reform and opening up of the capital market has undergone profound changes. Impacted by mixed economic and financial factors at home and abroad, the market is faced with a complicated situation, while we are challenged by an arduous task of reform and development. But generally speaking, no fundamental changes have taken place in respect of the foundation and driving forces for the steady and healthy development of China's capital market; macroeconomic fundamentals supporting the sound development of the capital market remain stable, while underlying systems ensuring the stable operation of the capital market become well-established, providing the capital market with many favorable conditions to enjoy the period of major strategic opportunities. Given the new context in 2010, China is concentrated in promoting stable and healthy development of the capital market, with steady paces taken to promote financial futures and a smooth launch of the pilot margin trading business, continuing to deepen the capital market reform so as to consolidate the foundation for market growth.

The overall development of the Chinese capital market from 2009 to the first half of 2010 is mainly reflected in the following aspects:

(I) The extent of the increase and decline in the stock market rose significantly, with more reasonable market valuation.

In 2009, China's stock market shook up, while the stock index at Shanghai Stock Exchange as well as Shenzhen Stock Exchange showed good momentum. The Shanghai Stock Exchange Composite Index closed at 3,277.14 points, up by 74.25 percent compared to the 1880.72 points at the beginning of the year; The Shenzhen Stock Exchange Component Stock Index closed 13,699.97, up by 106.48 percent compared to the 6634.88 points at the beginning of the year. Then, impacted by changes in the domestic and international economic climate as well as the macroeconomic regulation, the stock market began to undergo a horizontal price movement, seeing an oscillation all the way down in the first half of 2010. By the end of June, the SSE Composite Index closed at 2398.37 points, down by 26.93 percent compared to the 3282.18 points at the beginning of the year; the SZSE Composite Index close at 9,386.94 points, down by 30.64 percent from the 13,533.54 points at the beginning of the year.

As of the end of June 2010, the number of listed companies at Shanghai and Shenzhen Stock Exchanges totaled 1,891, an increase of 173 compared with that at the end of 2009. In 2009, the year-end total market value and negotiable market capitalization at the stock market respectively amounted to 24.393912 and 15.125865 trillion yuan, up by 101 and 234.54 percent year on year, showing a rapid growth of the market. In the first half of 2010,
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as the stock markets stabilized, the total market value and negotiable market capitalization as of the end of June respectively stood at 19.5138728 and 12.6761525 trillion yuan, a reduction of 4.88004 and 2.449713 trillion yuan, or 20.01 percent and 16.20 percent respectively over 2009.

(II) The size of financing enjoyed a significant increase, while direct financing played a more important role in the allocation of the social funds.

In 2009, the Chinese government took effective regulatory policy, initiating a market-oriented reform of the system for issuance of new shares, where the IPO issuance examination was restarted and the GEM was introduced, leading to mitigated market pressure and increased size of direct financing. The funds raised from the domestic stock market throughout the year totaled 571.116 billion yuan, a significant increase over the previous year’s 426.448 billion yuan. This included IPO of 111 A-share stocks with a fund-raising volume of 183.138 billion yuan, 83 additional issuances with a fund-raising volume of 301.993 billion yuan and 10 allotments of shares with a fund-raising volume of 10.597 billion yuan. In the first half of 2010, the total fund-raising through the domestic stock market amounted to 333.91 billion yuan, an increase of 232.097 billion yuan compared with the same period last year, up by 227.96 percent year on year, with a sharp increase in the funds raised.

(III) Listed companies became better-established to a large extent, with quality improved steadily.

Since 2009, we continued to guide and drive large-scale, high-quality corporations across China to get enlisted, with remarkable results achieved. Blue chips took the leading status in the stock market, while a number of listed companies of scale and profitability became the leading force in the capital market.

Meanwhile, the regulatory systems of information disclosure for listed companies issuing fully tradable shares in 2009 were modified, with well-established information disclosure rules for GEM-listed companies while the merger and reorganization systems as well as the on-site inspection rules for listed companies completed. The institutional infrastructure for listed companies was further consolidated, and the quality of listed companies was remarkably enhanced.

(IV) Institutional investors have grown in size and strength.

In recent years, China has witnessed the rapid growth of institutional investors, while fund investment has virtually become a key wealth management means of the general public. As of June 30, 2010, there were a total of 619 funds in the country, of which 118 were incepted in 2009 while 62 in the first half of 2010. The year-end net asset value in 2009 amounted to 2.67608 trillion yuan, up by 38.02 percent over 2008. Impacted by the slump in stock market, the net assets decreased to 2.115699 trillion yuan in the first half of 2010, down by 8.19 percent year on year.

(V) The bond market continued to develop in depth with active bond financing.

Since 2009, China's bond market took a step forward and developed in depth, with its size continued to grow in leaps and bounds. Bond financing exhibited an active trend, with the diversification of bond varieties, while long-term varieties accounted for a larger proportion. As of the end of 2009, 1,740 bonds raised funds with a total par value of 16.51735 trillion yuan; by the end of June 2010, the two figured grew to 2,076 and 18.094713 trillion respectively. The total amount of bonds traded through the secondary market accounted for 116.03905 trillion yuan, up by 116.94 percent compared with that at the end of 2009.
(VI) The structure of the futures market was further optimized, with the fundamentals for the market development further consolidated.

In 2009, the varieties traded through the commodities futures market embraced continuous improvement, with an annual turnover of 27,463,5626 trillion lots and a turnover amount of 17.132501 trillion yuan, greatly up by 76.84 percent and 175.63 percent respectively over the same period of the previous year. In the first half of 2010, 5,751,8426 lots of futures contracts were traded, with a turnover amount of 4.386126 trillion yuan, respectively up by 66.33 percent and 75.70 percent year on year, indicating the continuous rapid growth of the commodities futures market.

The Chinese government launched the stock index futures in the first half of 2010. The first trading began with the four futures contracts on Shanghai-Shenzhen 300, while new varieties were constantly introduced. As of the end of June 2010, the volume of stock index futures traded during the current period totaled 5,444,545 lots, with a turnover amount of 4.486258 trillion yuan, while the positions reached 28,785 lots. Meanwhile, the supervision system and trading rules for the financial futures market were constantly improved, laying a stronger foundation for the development of the financial futures.

(VII) Steady progress has been made in the institutional infrastructure for the capital market.

In 2009, the CSRC stepped up to expand the long-term funding in the market, studying and encouraging policies and measures for long-term funds to investment in the stock market. Policy measures concerning cash dividends and repos of listed companies were reinforced to enhance the market value of investments. The block trading system was further improved to balance market supply and demand. Risk monitoring, early warning as well as prevention and control were strengthened to effectively combat systemic risks. The timely introduction of pilot margin trading business for securities companies allowed modifications to business rules in time based on the practice for gradual expansion of pilot sites.

In the first half of 2010, the CSRC actively urged part of the listed companies subject to restructuring to get listed as a whole and cracked down on infringements in the interests of listed companies committed by shareholders through affiliated transactions. We continued to deepen the reform of the issuance system and to strengthen supervision over inquiry and pricing process. The exit mechanism for listed companies was established, and the information disclosure regulatory system in the capital market was perfected. Public opinions were further guided while investors better informed. Progress was also made in market statistics and analysis.

(VIII) Risk disclosure is enhanced, while investor education campaigns were vigorously carried out.

With the sharp adjustment of China's stock market since 2008, the market has been challenged by increased fluctuations and volatility. In particular, the orderly introduction of the GEM and margin trading business put an urgent requirement on the agenda: to further enhance investor education so as to prevent against all kinds of risks. To this end, the CSRC has made deployments for several times in purpose of better investor education and market supervision. The SAC has also greatly contributed to this task, with positive results achieved in investor education. Since 2009, the SAC has issued the Standards for the Investor Education of Operation Departments of Securities Firms and the Essential Terms and Conditions in the GEM Investment Risk Disclosure Statement, launched special inspections and patrol lectures on investor education as well as advocacy campaigns and training focused on business knowledge of index futures, and margin trading.
(IX) Steady progress was made in opening up of the capital market

Since 2009, China has further supported qualified domestic operators and institutional investors to gradually enter the overseas market. Pilot projects of QDII proceeded steadily. As of the end of June 2010, 31 fund management companies and nine securities companies obtained the QDII qualification, while 24 QDII funds and two collective QDII schemes were approved, of which 17 QDII funds and one collective QDII scheme were issued, with a total stock of approximately 67.6 billion yuan.

In 2009, the Chinese government approved the application from two securities companies to set up branches in Hong Kong under the revised and republished Rules for the Establishment of Foreign-shared Securities Companies. As of the end of June 2010, ten securities companies and six futures companies set up subsidiaries in Hong Kong. In October 2009, the quota limit for a single QFII institution was raised from 800 million to 1 billion USD, and QFII institutions were allowed to open capital accounts in different natures and categories. As of March 31, 2010, the quota for QFII approved accumulated 17.07 billion USD.

III. Outlook of China’s capital market

Since the beginning of the reform and opening up, China has made great achievements in its economic development. However, the unreasonable economic structure and the extensive growth pattern are still seriously hindering the country’s sustainable and sound economic development. Therefore, transformation of the growth pattern to build a proprietary innovation-oriented economic system has become a major task to be addressed without delay in China. Our experience drawn at home and abroad shows that a strong capital market serves as a key to realize such a transformation.

After more than two decades of reform and opening up, China has accumulated some experience and formulated certain basic principles, laying a solid foundation for rapid and sound growth of the capital market: First, the development of the capital market is identified as an important strategic task, with an awareness campaign across the whole community on the importance of the capital market. Second, we get focused on serving the national economy for coordinated progress between the capital market and China's economic and social development. Third, we uphold the direction of the market-oriented reform to fully mobilize all market participants. Fourth, we have reinforced the legal system to continuously refine the regulation on the capital market. Fifth, we steadily push forward the opening up to improve the international competitiveness of China's capital market.

As we look into the future, China's capital market will usher in a new era of all-round development, where it is due to play a more important role in the country’s economic and social well-being, completing the shift from an emerging and transitional economy and well-established market. The system of market supervision and law enforcement will take shape, while the capital market has grown more fair, transparent and efficient. The market will greatly extend in depth and breadth, while the trading of stocks, bonds, commodities futures and derivatives market will advance side by side, supported by more diversified trading platforms and more perfected trading systems engaging more market participants. China's capital market will become an efficient, multi-level international capital market, while the service will be upgraded across the Chinese institutions engaging in securities and futures businesses to effectively promote the allocation of resources and industrial restructuring, improve the quality of listed companies, enhance economic growth and nurture social wealth, adding to the core competitiveness of the financial service providers.