

Report on China's Economy and Capital Market

-By The Securities Association of China

I. Macro economy of China in 2008 and in the First Half of 2009

Since 2008, China strengthened and improved macro-control of economy, adopted proactive fiscal policy and monetary policy, and accelerated the shift of economic mode of development. Consequently, China's national economy kept a good trend of development with sustainable growth, optimal structure, improved economy, and people's living standards and every aspect of society was enhanced.

Chinese government completed the work in the following aspects: 1. improved macroeconomic control and maintained the steady and fast development of economy; 2. strengthened the building of agriculture infrastructure to promote the development of agriculture and growing income of farmers; 3. promoted the shift of structure and development mode; 4. strengthened protection of environment and improved the quality security of products; 5. deepened the reform of economic mechanism and enhanced the level of opening to the outside world; 6. focused on social construction and improved living standards of people; 7. strengthened democratic and legitimate construction and promoted social fairness and justice; 8. speedened the reform of administration mechanism and strengthened the government construction.

Therefore, though China experienced natural disaster like storm and earthquake at home and uncertain international factors such as the slow down of growth rate of world economy caused by financial crisis, the pressure of inflation all over the world and greater risk in the international financial market, it still kept the fast growing trend with the growth rate of 9.0%. The GDP for the whole year reached 30.07 trillion RMB. The growth rate for the first quarter, the second quarter, the third quarter and the fourth quarter was 10.6%, 10.1%, 9.0% and 6.8% respectively. From the viewpoint of different industries, the total added value of first industry reached 3.4 trillion RMB, up 5.5%, the total value of second industry reached 14.6183 trillion RMB, up 9.3%, and the total value of third industry amounted to 12.0487 trillion

RMB, up 9.5%.

The performance of China's macro economy demonstrated the following characteristics:

1. The agricultural production kept steady development and increased food production was achieved for five consecutive years. The total food output for the whole year aggregated to 528.5 million tons, up 5.4% over last year with 26.9 million tons more and increased for five consecutive years.
2. The growth of industrial production slowed down and the growth rate of enterprises' profit decreased. The value added of all state-owned enterprises and non-state owned enterprises with average annual sales income above 5 billion Yuan grew 12.9% over last year and the growth rate dropped 5.6% over last year. From the viewpoint of different ownership, the value added of state-owned and state-controlled enterprises grew 9.1%; the value added of collective enterprises grew 8.1%, the value added of shareholding enterprises grew 15% and that of foreign enterprises and enterprises owned by Hong Kong, Taiwan and Macao grew 9.9%. Heavy industry grew by 13.2% and light industry grew by 12.3%. The five industries with most profit achieved are the following: petrol and natural gas, coal mining and, manufacture of communication transportation equipment, manufacture of chemical material and chemical products, melting and processing of black metal.
3. The sales of domestic market kept fast increase and the urban and rural consumption enjoyed robust growth.

The total retail sales of social consumer products amounted to 10.85 trillion RMB, an increase of 21.6% over last year and 4.8 points more in the growth rate. The retail sales of urban consumer products reached 7.37 trillion RMB, an increase of 22.1% and 4.9 points over last year; The retail sales of rural consumer products reached 3.48 trillion RMB, an increase of 20.7% and 4.9 points over last year. The wholesale and retail sales of consumer products aggregated to 9.12 trillion RMB, an increase of 21.5%; the retail sales of catering industry reached 1.54 trillion RMB, an increase of 24.75.

4. The investment maintained fast growth and the investment structure were improved to some extent.

The investment of fixed asset of the whole society reached 17.22 trillion RMB, up 25.5% over last year and the growth rate grew 0.7%. Among which, A total of 14.81 trillion RMB was invested in urban fixed asset, up 26.1% and 0.3 point more than that of last year; 2.41 trillion RMB was invested in rural fixed asset, up 21.5%. Among urban investment, 225.6 billion RMB was invested in first industry, up 54.5% over last year; 6.50 trillion RMB was invested in second industry, up 28.0%; 8.08 trillion RMB was invested in the third industry, up 24.1%.

5. The growth rate of CPI experienced ups and downs, and kept a steady growth in the second half of the year. The residential consumer price for the whole year grew by 5.9%, up 1.1 points over last year. The price in urban area grew 5.6% and in rural area grew 6.5%.

6. The import and export for the whole year maintained fast and steady growth and the growth rate for the fourth quarter declined largely. The total volume of import and export for the whole year reached \$2.56 trillion, an increase of 17.8% over last year. Among which, the volume of export was \$1.43 trillion, an increase of 17.2% and the volume of import was \$1.13 trillion, an increase of 18.5%. The trading surplus was \$ 295.5 billion, 32.8 billion more than that of last year. Affected by shranked demand of international market and sharp decline of international raw product, the import for the fourth quarter dropped 8.8% over the same period of last year and the export for the fourth quarter grew by 4.3% over the same period of last year. The total value of foreign capital actually used in the past year reached 92.39 USD, an increase of 23.6% than that of last year. The foreign exchange reserve amounted to 1.95 trillion RMB by the end of 2008, an increase of 27.3% than that of last year.

7. The number of new jobs added in the urban and rural area kept steady in general and the income of urban and rural residents continued to increase. A total of 11.13 million new jobs were created in urban and rural area for the whole year, and the registered unemployment rate in urban and rural area by the end of last year was 4.2%, up 0.2% over the end of last year. Per Capital disposable income in urban and

rural area for the whole year reached 15781 RMB, an increase of 14.5% over last year and an actual increase of 8.4% adjusted for the effect of price. Per capita net income of rural residents reached 4761 RMB, an increase of 15%, and the actual increase was 8.0% adjusted for the effect of price. The balance of residential savings deposits by the end of last year amounted to 21.8 trillion RMB, 4.53 trillion RMB more than that of last year.

8. The growth rate of broad money supply increased and the amount of outstanding loans grew largely. By the end of last year, The balance of broad money (M2) was 47.5 trillion RMB, an increase of 17.8%, 1.1 points more than that of last year; The balance of narrow money (M1) reached 16.6 trillion RMB, an increase of 9.1% and 12.0 pints down over last year; The balance of money in circulation (M0) was 3.4 trillion RMB, an increase of 12.7% and 0.6 point more than that of last year. The balance of loans issued by financial institutions amounted to 30.34trillion RMB, 4.91 trillion RMB more than that in the beginning of the year,; the balance of savings deposits reached 46.62 trillion RMB, an increase of 7.69 trillion RMB than that in the beginning of the year. The money in circulation for the whole year reached 384.4 billion RMB, 54.1 billion RMB more than that of last year.

In 2009, the demand of international market continued to shrink and the trend of deflation began across the world, the trade protection began to resume and uncertain factors increased remarkably. Affected by international financial crisis, the growth rate of China's economy slowed down continuously, there appeared more factors leading to income decrease and expenditure increase in fiscal revenue and more difficulties in keeping the steady development of agriculture and sustainable increase of farmers' income. Under the new circumstance both home and abroad, Chinese government attached great importance to adjust the decline of growth rate of economy, to expand domestic demand, to increase effective demand , to strengthen the role of domestic demand in promoting the growth of economy, to expand government investment on a large scale and to reduce structural tax; to implement the plan of adjusting and revitalizing industry and improving the competitive edge of national

economy. Chinese government adopted a plan of investing 4 trillion RMB within 2 years, among which 1.18 trillion RMB was from the central government, In general, China's macro economy is developing as expected and kept the trend of steady and faster development. As more and more active factors appeared in the economy operation, national economy started to resume.

The performance of China's macro economy in the first half of 2009 demonstrated the following characteristics:

The GDP in the first half of the year reached 13.99 trillion RMB, up 7.1% over the same period of last year, 1.0 points faster than that of first quarter. The growth rate for the first quarter and the second quarter was 6.1% and 7.9% respectively. The value added in the first industry was 1.2 trillion RMB, an increase of 3.8%; the value added in the second industry was 7 trillion RMB, an increase of 6.6%, and the value added in the third industry was 5.77 trillion RMB, an increase of 8.3%.

1. Summer harvest was realized for 6 consecutive years and the growth of stockbreeding production remained steady. The amount of summer food production reached 123.35 million tons with an increase of 2.2% and 2.6 million tons more than that of last year. The production increased for 6 years.
2. The growth of industrial production was accelerated and the decline of industrial profit was slowed down. The value added of all state-owned enterprises and non-state owned enterprises with average annual sales income above 5 billion Yuan grew by 7.0% than the same period of last year(The number is 10.7% for June). The growth rate for the first quarter and the second quarter was 5.1% and 9.1% respectively.
3. The investment in fixed asset grew fast and the investment structure was improved to some extent. In the first half of 2009, 9.13 trillion RMB was invested in fixed asset for the whole society, with an increase of 33.5% and 7.2 points than the same period of last year.
4. The sales of domestic market grew rapidly and steadily and the growth in rural area was faster than that in urban area. The total retail sales of social consumer products reached 5.87 trillion RMB with an increase of 15.0% over the

same period of last year, and the actual increase was 16.6% adjusted for the effect of price, 3.7 points more than that of the same period of last year.

5. The CPI continued to fall and the production price declined sharply over the same period of last year. The residential consumer price for the whole year posted a decrease of 1.1% for the first half of 2009 (In June, the growth rate was down 1.7% from the same period of last year).

6. The foreign trade continued to decrease sharply and the trading surplus declined a little. In the first half of 2009, the total volume of import and export was 946.1 billion US \$ with a decrease of 23.5% than the same of last year. Among which, the volume of import was US\$ 521.5 billion, a decrease of 21.8%; the volume of export was 424.6 billion RMB, a decrease of 25.4%. The trading surplus was US\$ 96.9 billion, a decrease of US \$2.1 billion than the same period of last year.

7. The rural and urban residential income continued to grow and the transferred income increased greatly. In the first half of 2009, the per capita total income for rural and urban residential household was RMB9667. The per capita disposable income was RMB 8856 with a decrease of 9.8% that the same period of last year and an actual increase of 11.2% adjusted by the effect of price.

8. The money supply grew fast and the loans issued by financial institutions increased remarkably. By the end of June, the balance of broad money supply (M2) reached 56.9 trillion RMB, an increase of 28.5% than the same period of last year and 10.6 point more than that in the end of last year. The balance of narrow money supply (M1) reached 19.3 trillion RMB, an increase of 24.8% than the same period of last year, 15.7 points more than that in the end of last year. The balance of money in circulation (Mo) reached 3.4 trillion RMB, an increase of 11.5%, 1.2 points down from the same period of last year. The RMB loans issued by financial institutions reached 37.7 trillion RMB, an increase of 7.4 trillion RMB than that in the beginning of the year; the savings deposits reached 56.6 trillion RMB, an increase of 10.0 trillion RMB. The outstanding loans added in the first half of 2009 reached 7.37 trillion RMB, the largest ever than any year in the history.

At present, there still existed much difficulties and challenges in the development of

economy, such as the foundation for the recovery of national economy was not solid, the trend of recovery was not steady, and the pattern of resume was not balanced and much uncertain and unsteady factors still existed in the course of recovery. At the next stage, Chinese government will continue to carry out scientific view of development, to adopt active fiscal policy and moderately loosen monetary policy, to carry out package plan in dealing with international crisis, to improve the pertinence, effectiveness and sustainableness of policy, to reinforce and develop the tendency of economy recovery, to pay more attention to improvement and guarantee of people's living standards, to promote the structural adjustment and self innovation, to develop new growth points rapidly, to improve the quality of economy recovery, and to keep the steady and fast development of national economy.

II. China's Capital Market in 2008 and in the First Half of 2009

Since 2008, under the guidance of Opinion on Reform and Steady Development of Capital Market by National Council, China continued to strengthen fundamental mechanism construction of capital market, to guarantee the steady operation of market, to improve the quality of listed companies, to develop institutional investors, to reinforce market regulation, to promote the healthy development of main body of market , to solve the problems affecting the healthy development of market left over by history, to promote the reform of stock offering mechanism, the construction of market system and the innovation of product and business, to develop futures market steadily, to strengthen market supervision overall, to propel the liberation of capital market and securities industries so that new progress was achieved in the building of capital market.

Since 2009, great changes took place in the domestic and foreign environment during the reform and development of capital market, impacted and affected by various factors of both international and domestic economy, the market situation become more complicated and the task of promoting reform and development become tougher. Yet , in general, the foundation and impetus for the healthy development of

Chinese capital market did not change, the macro economic foundation to support the healthy development of capital market still existed, the condition of system for the healthy development of capital market already came into being, there appeared many favorable condition for the development of capital market. Under the new situation, China will focus on the steady and healthy development of capital market, to promote the development of capital market and to strengthen the foundation for the development.

The general situation of the development of China's capital market is as following,

1. The stock market started to recovery after sharp decline and the valuation of the market become reasonable

China's stock market declined sharply in 2008. Shanghai Composite Index posed a decrease of 65.39% compared to the beginning of the year and closed at 1820.81 points while Shenzhen Constituent Index posted a decrease of 63.36% compared to the beginning of the year and closed at 6485.81 points. With the recovery of China's economy, the stock market began to rally since 2009. Shanghai Composite Index climbed to 2959.36 points with an increase of 62.53% over the beginning of 2009 and Shenzhen Compound Index rebounded to 7931.13 points with an increase of 78.34%. The average daily trading volume grew from 108.58 billion RMB in 2008 to 210.30 billion RMB in the end of June of 2009 with an increase of 93.68%. The trading volume increased largely.

As of June 30, 2009, there are 1709 listed companies in Shanghai Stock Exchange and Shenzhen Stock exchange, 77 more than that in the end of 2007. Due to the sharp decline of stock market in 2008, the total capitalization and current capitalization of the stock market reached 14.83 trillion RMB and 4.43 trillion RMB as of the end of last year, down 54.66% and 52.42% over the same period of last year, shrunked sharply in the scale. In the first half of 2009, the market capitalization and capitalization in circulation of China's stock market amounted to 24.42 trillion RMB and 8.89 trillion RMB by the end of June owing to the rally of the stock market, 9.59 trillion RMB and 4.55 trillion RMB more than that in the end of 2008, up 64.67% and 102.71% respectively.

2.The scale of capital raised shranked a little and the role of direct financing in the allocation of social fund become more and more important

With the slump of the stock market in 2008, Chinese government took strong measures to avoid oversupply of the market by suspending the approval of IPO, so that the scale of direct financing shranked a little. The total volume of capital raised by stock issuing and placement reached 421.6 billion RMB, 427 billion RMB less than that of last year. Among which, the number of A shares outstanding (including additional offer and convertible bonds) was 228, the number of right shares was 8, and the amount of capital raised amounted to 416.2 billion RMB, a decrease of 46.14% over the same period of last year, and total volume of capital raised by IPO reached 103.4 billion RMB; the number of H shares outstanding was 29, and the amount of capital raised reached 62.6 billion RMB, 7.8 billion RMB less than that of last year. In the first half of 2009, the total amount of capital raised in domestic and international market was 267.9 billion RMB, 36 billion RMB more than that of same period of last year, an increase of 15.52%, and the amount of capital raised turned to grow steadily from the decline. The role of direct financing in the allocation of social capital become more and more significant, the total volume of capital by direct financing reached 105.1 billion RMB, the percentage of financing by issuing stock and bond rose remarkably, diversified ways of financing coexisted in domestic market.

3. The structure of listed companies was improved remarkably and their quality were enhanced steadily

Since 2008, more and more large and good enterprises were listed in the stock exchange, blue chips take the leading position in the stock market, and a number of listed companies with strong abilities of earning profit become the main force in the market.

At the same time, with the faster pace of listing of big and medium sized enterprises and non-tradable shares began to be traded in the market, by strengthening the corporate governance and information disclosure of listed companies, the mechanism construction of listed companies was reinforced and the quality of listed companies

was improved.

4. The group of institutional investors is expanding continuously

In the past few decades, the group of institutional investors developed rapidly. As of June 30, 2009, there are a total of 536 funds (including 10 QDII funds), among which 126 were newly initiated in 2008 and 71 was founded in the first half of 2009. The total volume of asset under management reached 2.15 trillion RMB, down 34.45% from that in 2007, the total volume of asset under management amounted to 103.1 billion RMB, up 46.03% from that of 70.6 billion RMB in the same period of last year. The total accounts held by fund holders were 175 million. Fund investing become the important way of financing for social investors.

5. The bond market developed deeply and the way of financing by issuing bonds become active

Since 2008, China's bond market developed deeply. The scale of bond market was expanded remarkably. The way of financing by issuing bonds become active and the types of bonds become more diversified while the percentage of long term funds grew substantially. The total volume of bonds outstanding reached 7.25 trillion RMB, and the existing volume of bonds in the secondary market grew steadily and reached 18.95 trillion RMB by the end of last year. In the first half of 2009, the total volume of bonds outstanding reached 3.43 trillion RMB, a decrease of 15.53% over the same period of last year, and the existing volume of bonds in the secondary market was 23.49 trillion RMB, an increase of 23.96% over the end of 2008.

6. The structure of futures market was optimized further and foundation for the development of market was strengthened

The golden futures was listed in the stock exchange in 2008, and the types of futures products in futures market were improved continuously. The total trading volume in the futures market reached 1.364 billion hands in 2008, and the trading value reached 70 trillion RMB with 30 trillion RMB more than that in the same period of last year, hitting the historical new high; the trading volume of futures contract reached 578 million hands and the trading value reached 3549.3 trillion RMB in the first half of 2009, an increase of 45.58% and 40.86% over the same period of last year. The

futures market kept growing rapidly.

The preparation work for the futures index was propelled steadily and the relative regulatory and technical work have also been completed. The approval of futures business licenses for intermediate institutions have also been carried out orderly. The regulatory framework has also been improved continuously, and the regulation coordination mechanism across the markets of stocks and futures indexes has been established. And the surveillance and supervision system for the Operation of futures market was set up. The foundation for the development of futures market was strengthened further.

7. The construction of fundamental mechanism of the capital market was promoted steadily

1). To solidate the market foundation and to promote the steady development of market.

2). To strengthen the legislative mechanism and to punish illegal behavior severely.

8. Risk disclosure and investors education were reinforced

With the continuous rally of the stock index in 2006 and 2007, the stock market became booming unprecedentedly and a great number of investors started to invest in the stock market. But with the sharp decline of the indexes in 2008, the market experienced great ups and downs, which required the investors education to be strengthened and to prevent risk. Hence, China Securities Regulatory Commission made arrangement for investor's education and to warn investors of market risks.

9. The opening of China's capital market was promoted steadily

Since 2008, China supported domestic corporation and institutional investors to enter international market. The pilot work on QDII (Qualified Domestic Institutional Investor) was carried out steadily. At present, there are 21 fund management companies, 9 securities firms which obtained the licenses for QDII business, and 11 QDII funds and one QDII collective plans were approved. Among which, the public offering of the collective plans for 10 QDII funds and 1 QDII plan were already completed, and the scale of proceeds raised amounted to 110.18 billion RMB.

In 2008, 8 securities companies, 6 futures companies were approved by Chinese

government to establish branch offices in Hong Kong, the rules on securities companies with equities held by foreign capital were also revised and published. The approval of joint adventure securities companies was resumed and their business scope was expanded. The investment quota for QFII(Qualified Foreign Institutional Investors) was expanded to US\$ 30 billion. As of the end of June, 2009, the quota already used by QFII reached US\$10.77 billion.

III. Outlook of China's Capital Market

In retrospect, the rapid development of China's capital market was attributed to the sustainable, steady and healthy development of China's economy on one hand, on the other hand, it also benefited from the gradual progress of market reform and the combination of market experience of emerged market with China's national conditions. After the building of the capital market in the past ten years, especially in the past five years, China's capital market achieved great breakthrough and played an increasingly more significant role in the development of China's society. Precious experience was accumulated in the process and will lay a good foundation for the further promotion of the reform and development of China's capital market. Since 2008, affected and influenced by the various international and domestic factors, the situation of China's capital market become more complicated and the task of reform and development become tougher. Yet, there still existed many favorable conditions in the development of China's capital market, it still stands at the crucial period with strategic opportunities: with the implementation of the policy of "Guarantee growth, expand domestic demand and adjust the structure" by Chinese government, great support will be provided to the development of China's capital market, the active effect of the construction of fundamental mechanism solided the internal basis of China's market; the fundamental and tendency of China's economy did not change, the positive trend of the market did not change, the reasonable demand of economic entities were satisfied and will provide impetus for the development of capital market; and the change of market environment also provide opportunity for the structure adjustment and function improvement of China's capital market.

It will be pivotal period for China to build a well-off society in the coming years. The importance and strategic position of China's capital market in the development of China's economy will become more outstanding, and China's capital market will be confronted with new opportunities and challenges. In the future, with the gradual perfection of legislation and regulation system, the expansion of market scale and improvement of efficiency, and the healthy development of market, China's capital market will play more and more important role in the building of the harmonious society in the future, it will also played its role in the international financial system as it becomes a market with international influence with the development of China's economy.