

June 27, 2008 (Friday)

Market Snapshot

Main Market Index

Index	Volume (billion Yuan)	Close	Change (%)
CSI 300	49.32	2816.02	-5.53
SH Composite Index	63.33	2748.43	-5.29
SZ Component Index	34.26	9436.21	-5.63

Most Advanced Stock

Ticker	Name	Change (%)
600611	Dazhong Transportation	10.05
002217	Lianherd Chemical Industry	10.01
600614	Dinlgi Technology	9.96
600093	Sichuan Hejia	9.95
600331	Sichuan Hongda Chemical	8.69

Most Declined Stock

Ticker	Name	Change (%)
000995	Huangtai Wine-Marketing	-10.08
600240	Huaye Real estate	-10.07
600763	Top Choice Medical	-10.07
000859	Guofeng Plastic Industry	-10.06
600501	Aerosun Corp	-10.05

Most Active Stock by volume per share

Ticker	Name	Change	Turnover
601398	ICBC	-3.09	146m
600028	Sinopec	-9.12	117m
000002	China Wanke	-7.28	102m
600050	China Unicom	-5.27	99.7m
600030	Citic Securities	-8.33	97.6m

Currency Rate

CRY	Today	Yesterday	Daily Change (yuan)
USD	6.8610	6.8634	-0.0024

Multiple negative news sent stocks tumbling. SH composite index was down 153 points, or 5.29 percent. CSI 300 was down 164 points, or 5.53 percent. Only 50 stocks were up. Trading volume is 97.6 billion yuan.

The IPO of China Ever-bright Securities Co led the market opened 3 percent lower. It is the first securities firm in the last five years to start an IPO. Investors are losing hope that the government will shore up the market because freezing up new IPO was widely anticipated as a measure the government can take to support the stock market. That wishful thinking is shattered by this new IPO. Also, the plunge of DJIA and surging oil price also took it toll on Chinese stock market. It is a broad cross-section sell-off today.

In the afternoon, the decline accelerated due to rumors that the central bank will raise interest rates in the weekend to control inflation. That hurt the market a lot. As we said yesterday, investors are reluctant to hold stocks over the weekend out of the concern that something bad might happen in these two days. Although it is possible that the central bank will hike interest rates, we do not think it will happen in this weekend. Whether to raise interest rates largely depends on how inflation develops. New inflation data will not be published until next month, and the central bank would be imprudent to take any actions before that. We have to admit it is very hard to predict the actions of the government which is capricious from time to time.

There are new economic data released today. Electricity industry suffered a huge blow in terms of net profit which fell 70 percent in the first 5 months of 2007. To the contrary, coal industry posted a nearly 100 percent growth in net revenue in the same period. The economic slowdown also makes investors worried.

Economy**China Jan-May industrial firms' profits up 20.9 percent**

According to data released by National Bureau of Statistics, Chinese industrial companies posted a combined profit of 1.094 trillion yuan in the first five months, up 20.9 percent from the same period last year. However, the growth rate slowed down by 50 percent from the same period a year earlier due to high fuel costs.

Oil refiners and the coking industry had a loss of 44.3 billion yuan over the five months, compared with a profit of 35.2 billion yuan a year earlier, the statistics bureau said. Power generators' profits fell 74 percent and profits of chemical fiber sector also declined 26.8 percent year-on-year. Among the winners, coal miners posted the largest profit gain of 97.8 percent while oil producers and construction companies nailed down growth rates over 50 percent year-on-year.

China last week raised state-controlled fuel and electricity prices, easing the burden of refiners and power generators. Before the price rises, the government has poured billion of dollars in subsidies to its largest refiner. Sinopec got \$1 billion for April alone. But the company said the subsidies couldn't make up half of its losses. And the data backed up its story.

Since Sinopec and large electricity companies are state-owned, their poor performance dragged down the profit of all state-owned companies to a minimal 1.5 percent growth. While corporation companies' profit rose 24.1 percent from a year ago. And private-owned companies scored a robust profit growth of 51 percent year-on-year.

CSRC to consider Everbright Securities IPO

CSRC said yesterday they will review IPO application of Everbright Securities on next Monday. Everbright Securities, as a unit of Everbright Group, plans to issue up to 520 million shares on Shanghai Exchange. This may be the first securities company's IPO in the latest five years. And more securities companies are queuing in line for the IPO approvals.

There are reasons why the single IPO application is gaining so many spotlights. Currently, among the 9 listed securities companies, only Citic Securities went public by direct IPO in 2003. The rest all went public via the detour

of reverse takeover with a public shell in order to avoid disqualification in the process of IPO.

Thanks to the bull run of latest two years, many securities companies are now able to present excellent balance sheets for 2007. However, “profitability for three consecutive years”, one of distinct requirements of A-share IPO, impeded their ways to go public with fresh start, as most of the security companies reported losses in 2005. The shortcut of reverse takeover has much lower thresholds and is less time-consuming. Many companies therefore decided to list on the market through the “back-door” during 2006 to 2007.

The initiative of massive IPO applications of securities companies fell in line with market expectations, since more companies are coming closely to meet the hard requirements of IPO. And the regulators also favored the IPO idea because previous reverse takeovers were reported to involved many irregularities. As matter of fact, the ongoing investigation of Yi Wang, previous vice chairman of China Development Bank, was reported to implicate a securities firm that was listed in a public shell name. It may also explain the unusual move of CSRC to pre-announce IPO application.

Taiwan frees up financial ties with China

Taiwan’s government on Thursday announced a clutch of reforms to liberalize financial links with China in hope of generating an economic boost.

Since taking office as president last month after a landslide election victory, Ma Ying-jeou has moved quickly to fulfill a campaign pledge to close a deal with China to open regular non-stop passenger flight links and increase tourist flows from the mainland. Now the improvement of cross-Strait relation extends to financial market.

The cabinet said yesterday that it would allow RMB tradable in Taiwan; allow Taiwanese brokerages to invest in their Chinese peers; loosen restrictions on mutual funds buying Chinese and Hong Kong stocks; allow Chinese institutional investors to invest in Taiwan market;

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