

Lipper FundMarket Insight Reports



**China Fund Market Summary
Month End Analysis
October 31, 2005**

2005



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FUNDS SUFFER FROM EARNINGS DRAG IN OCTOBER

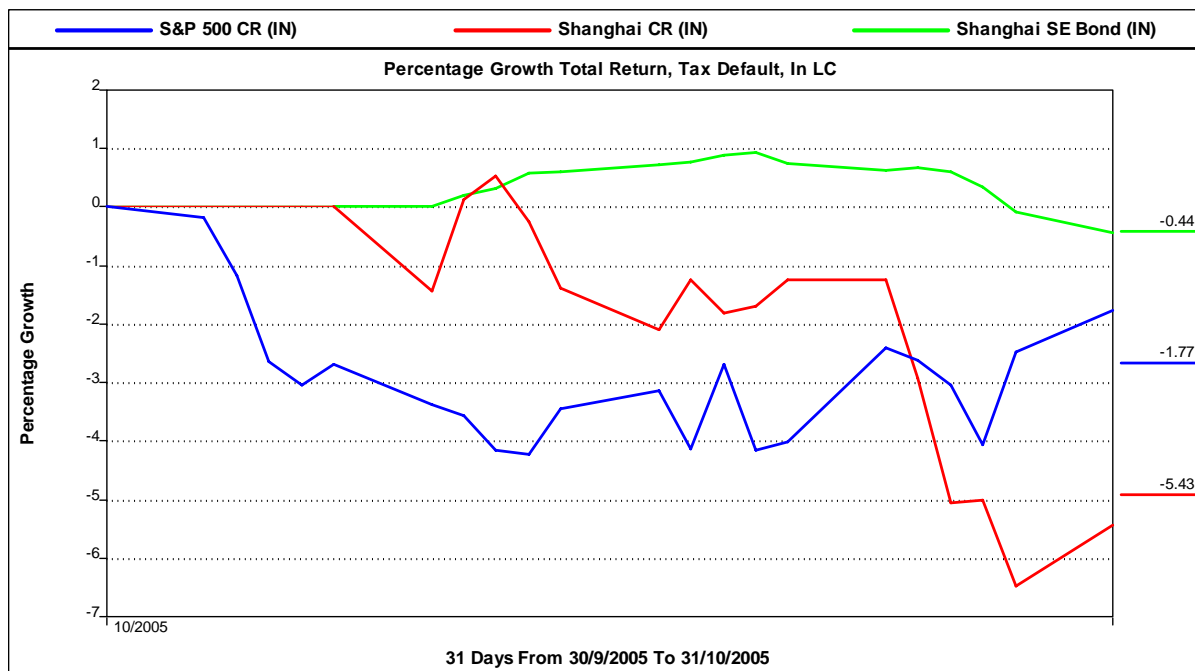
- Earnings reports depressed equity-heavy funds.
- Bond-heavy funds posted losses because of regulators' concerns about low yields.
- The SSEC index fell below the 1,100 level.
- G shares' performance disappointed investors.
- September inflation was lower than expected.

Market Performance

The Shanghai Stock Exchange Composite index slid 5.43% in October to 1,092.82, below the critical point of 1,100 and down 13.71% year to date. The Shanghai Stock Exchange Treasury Bond index retreated 0.44% to 108.22 in October, falling after ten consecutive months of gains. On a year-to-date basis the bond index is still up 13.19%. The S&P 500 index also scaled back 1.77% in October to 1,207.01, falling 0.41% year to date.

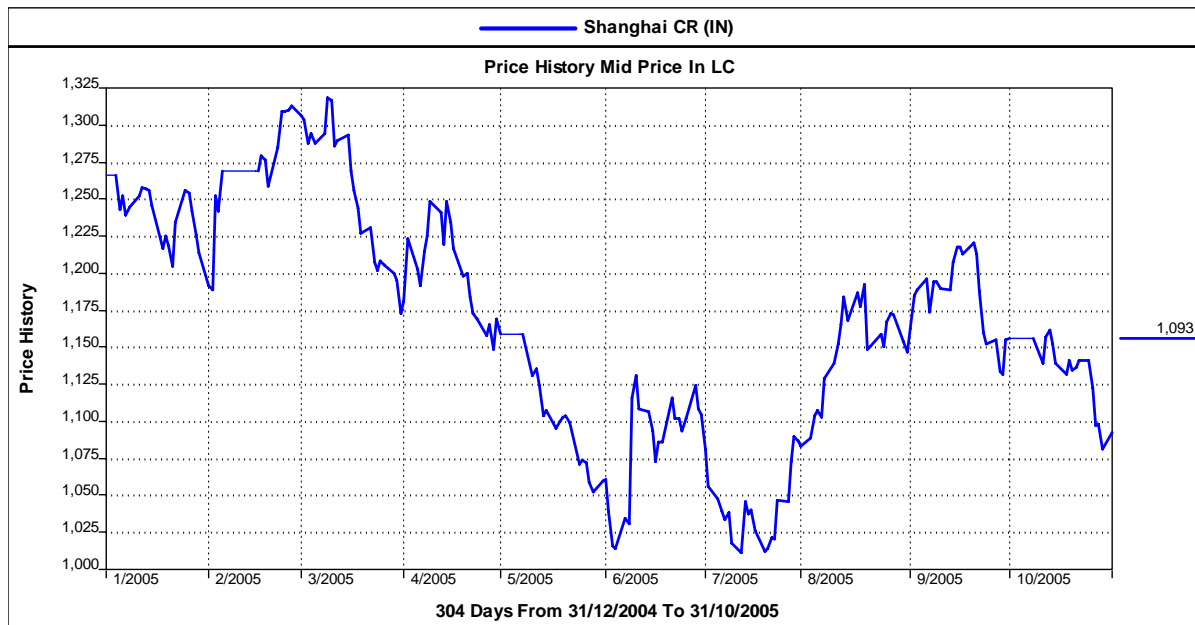
It seems that the huge rally following the yuan revaluation late in July started to lose momentum in late September, and the market took another nosedive in late October after the golden week of the National Holiday break. The market is now starting to ponder if the excitement from the currency revaluation and bonus shares has cooled down and that other forces are now coming into play.

Market Indices' Performance, October 2005



Source: Lipper

SSEC Index Values Year to Date



Source: Lipper

Although share reform continued to exert significant impact on the market, fundamental factors also became influential in October. All listed companies are required to provide their third quarter financial statements in October, and many companies also offered their outlook for the whole year. The overall performance of the companies in the third quarter was not satisfactory, and the overall outlook was not encouraging either, mainly as a result of macro-economic policies slowing the economy last year and the soaring raw materials prices.

Besides the less-convincing fundamentals, the market performance of new G shares also disappointed the market. Unlike the G shares from the pilot programs in July and August, most G shares fell below their split-adjusted price on their first debuts in September and October. Buying pre-G shares regardless of the valuation no longer guaranteed a profit. Since G shares represent the market valuation without the bonus shares, the valuation of G shares has significant influence on the overall valuation of the market. Technical factors also dragged down the G shares. As more companies completed the share reform the bonus shares increased the total supply of floatable shares, putting pressure on the market demand.

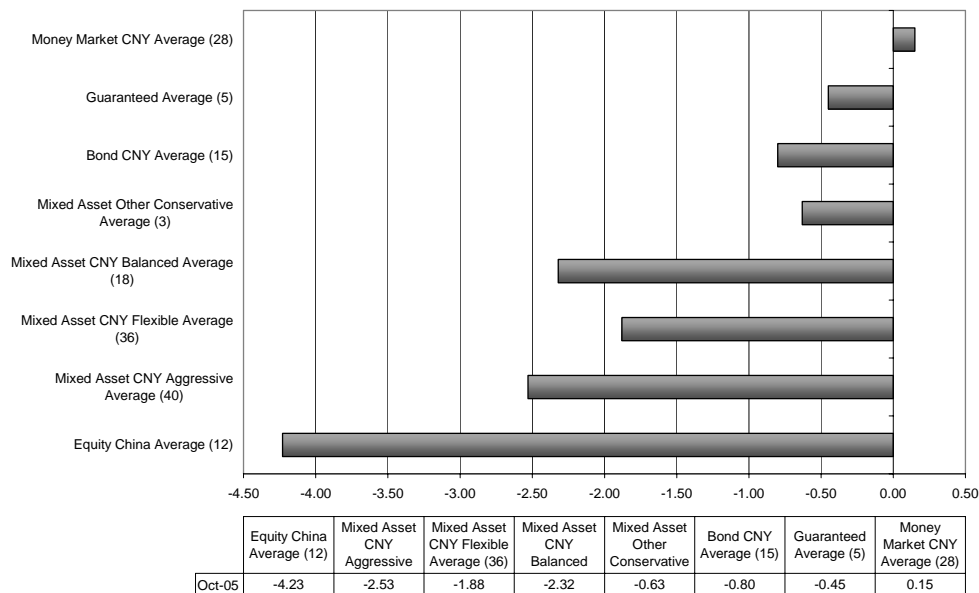
So far, 87 companies have finished their share reforms and become G companies, and 118 companies are in the reform process. The share reform process has been progressing smoothly under strong government policy support, and it is expected that about 300 companies will complete the reform process by the end of this year at the current pace. Until 60% of the companies complete reforms, regulators will keep the new stock issues frozen to avoid oversupply of stock shares. Besides overhauling new issues, the government has tried other policies to direct funds into the stock market, but in the long run company performance is the key to keeping the funds invested in equity.

The bond market finally took a breather in October after a ten-month-long rally. Although the September CPI number of 0.9% came in lower than the expected 1.2%, regulators have expressed concern over a very low-interest rate environment. As a result bond investors started to unload their bond positions to lock in the gains before the year-end. The benchmark ten-year Treasury note yielded 3.19% on October 31, about 2 basis points higher than the 3.17% on September 30. On the short-term end the Reuters 13-week T-bond repo benchmark yield ended at 1.70% in October, down 4 basis points from 1.74% at the end of September.

Open-End Fund Performance

The performance chart for October looks quite similar to that for September. All open-end classifications except the Money Market Funds classification posted losses. The Equity Funds classification, consisting mainly of index-tracking funds, was the biggest loser of the month, with a loss of 4.23%. The Mixed-Asset Aggressive classification was second to the bottom, with a loss of 2.53%, and Mixed-Asset Balanced (-2.32%) was next. Mixed-Asset Flexible (-1.88%), probably with a lower allocation to stock, did slightly better than the Aggressive and Balanced classifications. Of the three classifications weighted toward bonds, the Bond classification did the worst with a 0.88% loss, with Mixed-Asset Conservative at minus 0.63% and Guaranteed at minus 0.45%. The Money Market classification generated a 0.15% yield for October, the same as in September.

**Open-End Fund Classification Performance
for October 2005 in CNY**



Source: Lipper

Top and Bottom Three Open-End Funds by Asset Type for October 2005 in CNY

Fund Type	Fund Name	1M TR	Rank	1Y TR	1Y Std
Equity	E Fund 50 Index Fund	-3.27	1	-7.54	16.35
	INVESCO Greatwall DingYi Equity Fund	-3.31	2		
	Quantity Core Equity Fund	-3.75	3	-17.02	16.60
	Harvest Shanghai-Shenzhen 300 Index Fund	-4.74	10		
	Fortis Haitong Equity Fund	-4.77	11		
	Hua An Shanghai 180 Enhanced Index Fund	-4.77	12	-8.21	15.12
Bond	Boshi Stable Value Bond Fund	0.17	1		
	E Fund Income Bond Fund - A	0.16	2		
	ChinaAMC Bond Fund	0.10	3	6.51	2.94
	Changsheng Bond Fund	-1.30	12	5.37	4.94
	Rongtong Bond Fund	-1.53	13	2.59	4.28
	Industrial Convertible Hybrid Fund	-2.43	14	-0.20	8.37
Mixed Asset	China Nature Fortune Growth Fund	1.54	1	-0.02	7.63
	China Nature Quality Selected Fund	1.17	2		
	Rongtong Blue Chip Growth Fund	1.14	3	2.19	16.39
	Ju Tian Fundamental Industry Fund	-4.58	93	-13.45	15.07
	Harvest Service Sector Fund	-4.82	94	-7.11	13.91
	Guo Lian Dividend and Capital Growth Fund	-4.98	95		
Money Market	Fortis Haitong Money Market Fund	0.17	1		
	Lion Money Market Fund	0.16	2		
	ChinaAMC Cash Income Fund	0.16	3	2.61	0.15
	INVESCO Greatwall Money Market Fund	0.14	22		
	China Merchants Cash Enhancement Fund	0.13	23	2.53	0.18
	China International Money Market Fund - A	0.08	24		
Guaranteed	Yinhua Principal Protection Value Growth Fund	-0.28	1	2.20	1.78
	Tiantong Principal Guaranteed Fund	-0.37	2	5.47	1.77
	Guotai Golden Elephant Principal Guaranteed Fund	-0.48	3		
	China Southern Principal Protected Fund	-0.53	4	5.54	4.97
	Harvest Pu'an Capital Preservation Fund	-0.57	5		

Source: Lipper

Closed-End Fund Performance

Closed-end funds lost 4.39% in price in October, while the return in NAV was minus 3.17%. The average closed-end discount as of October month-end was 32.06%, expanding significantly from the 31.23% of the September month-end. The expansion of average discounts in October resulted in a worse performance in price than in NAV. **Xing Ke Fund** led the group with a 1.06% loss, and **Yin Feng Fund** sat at the bottom with an 8.07% loss.

**Top and Bottom Five Closed-End Funds
for October 2005 in CNY**

Fund Name	1M TR	Rank	1Y TR	3Y TR Ann
Xing Ye Fund	-1.06	1	11.49	-4.21
Ke Hui Fund	-1.11	2	22.42	15.43
Long Yuan Fund	-1.49	3	9.52	-3.62
Jing Yang Fund	-1.52	4	23.10	-1.46
Han Bo Fund	-2.18	5	14.41	-3.57
Kai Yuan Fund	-6.53	50	-13.57	-11.96
Yu Yuan Fund	-6.70	51	13.54	1.39
Tian Yuan Fund	-7.39	52	-20.85	-12.91
Hong Yang Fund	-7.48	53	-24.32	-19.39
Yin Feng Fund	-8.07	54	-26.58	-15.82
<i>Total Average (54)</i>	<i>-4.39</i>		<i>-3.06</i>	<i>-8.20</i>

Source: Lipper

Outlook

Share reform will continue to be a major factor influencing the stock market. As the reform process moves on an implicit bonus scheme of three to ten has become the norm, with adjustment accommodating for company size, performance, and ownership structures. Any deviation from current market expectations will cause valuation changes in the pre-G shares. Since the bonus ratios are more or less certain, performance of G shares and company fundamentals have also started to draw attention from the market. Whether the market can stabilize and eventually move upward depends on the business performance of and investor confidence in the listed companies. To ensure smooth progress of the share reform process, it is expected the government may provide policy support to keep the SSE index above the 1,100 level, leaving enough cushion for the 1,000 level.

On the fixed income side, as long as the equity market continues to underperform and inflation concern is not on the horizon, risk-averse investors will prefer to keep their assets in fixed income instruments. Given that the economy is slowing and currency appreciation pressure still exists, it would make sense for the government to keep a relatively easy monetary environment. But the direction could change if the government is extremely concerned about the current low-yield environment.

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