

China 50 ETF



Disclaimer:

This brochure has both Chinese and English version. The English version is included only for your reference.

[ABSTRACT]

The China 50 ETF is an efficient investment instrument that enables investors to trade all the constituent stocks of the Shanghai Stock Exchange 50 Index (the SSE 50 Index) with the ease of one stock transaction. The China 50 ETF gives trading flexibility to institutional investors and enables them to enter and exit the stock market quickly with lower transaction costs, enhancing investment portfolio management and efficiency.

The China 50 ETF benefits institutional investors through:

1、 Returns of a blue chip index

The China 50 ETF has the parallel risk and return features as the SSE 50 Index. Constituent stocks of the SSE 50 Index are characterized by good performance, sound liquidity and low P/E ratios. As a result, the purchase of a China 50 ETF unit is equivalent to the purchase of a leading blue chip stock. However, with the excellent fundamentals of the 50 strongest listed blue chip companies in the Shanghai market, the China 50 ETF brings greater diversity and reduces the risk inherent in a single stock purchase.

2、 Convenient transactions with exchange listing

The China 50 ETF can not only be created and redeemed through designated Participating Dealers (PDs), but also be traded on the Shanghai Stock Exchange as easily as other listed stocks. Investors can conveniently and quickly place buy and sell orders with their brokers and trade the China 50 ETF at market price.

3、 Low management expenses and transaction costs

The management and custodian fees for the China 50 ETF are significantly less than the fees charged by existing domestic index funds and are only about one third of the fees charged by active equity funds.

The transaction costs bore by the China 50 ETF are also significantly lower than that

of existing equity funds.

The transaction costs of the China 50 ETF in the secondary market mirror that of closed-ended funds. In addition, no stamp tax is applicable. Together, these factors significantly reduce the transaction costs for short-term investors who make frequent transactions.

The subscription and redemption fees (including brokerage commission and registration fee) for the China 50 ETF is no more than 0.5% of the subscription and redemption amount. The commission and registration fees collected by the Shanghai Stock Exchange and the China Securities Depository and Clearing Co., Ltd. will be reduced or waived.

4、 Efficient creation and redemption mechanisms

Adopting the in-kind creation mechanism, the China 50 ETF enables real-time transactions so as to enhance the efficient use of capital and underlining securities.

5、 Arbitrage returns

Investors may participate in arbitrage activities to capture risk free returns whenever the trading price of the China 50 ETF in the secondary market deviates from the net asset value of the fund.

6、 A multiple-use investment instrument

The China 50 ETF is a new and efficient investment instrument that enables investors to implement various investment strategies, such as long-term investment, short-term trading, asset allocation, stock re-investment, arbitrage and daily margin trading.

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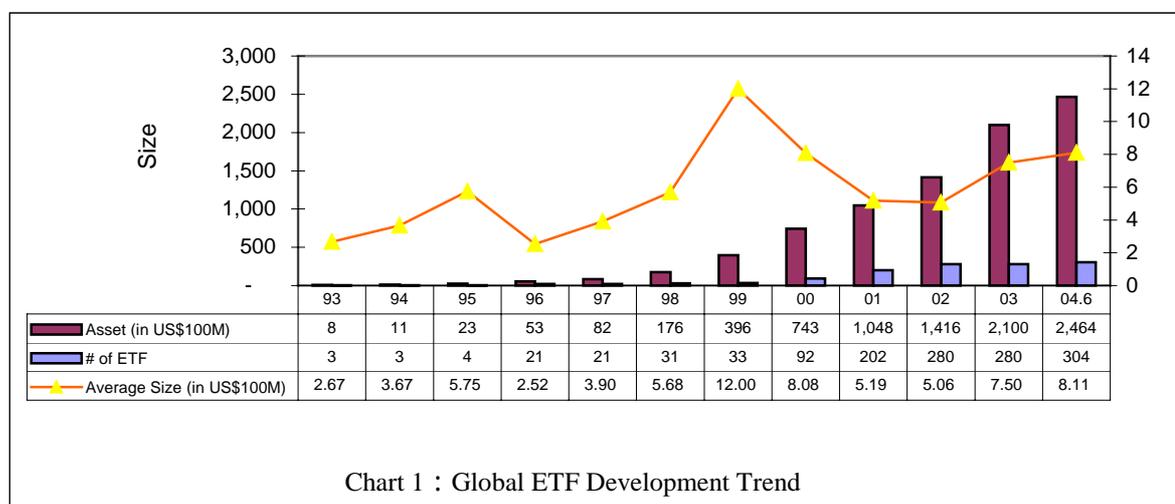
[ETF : AN EFFICIENT INVESTMENT TOOL]

I. What is an ETF : an Equitized Index Investment

ETF, the abbreviation of Exchange Traded Fund, refers to an open-ended index fund that is listed and traded on the stock exchange like any other ordinary stocks. The trading price and unit NAV of an ETF is almost the same as that of the index it tracks. By trading a single unit of an ETF, an investor equivalently trades the constituent stocks included in the index. The returns of an ETF thus also mirror those of the based index.

II. The Development of ETFs : The Fastest Growing Global Financial Product

The first ETF was launched on January 29, 1993, when AMEX first introduced Standard & Poor's Depository Receipts (SPDRs). ETF products have since witnessed substantial growth in the US and global markets. By June 30, 2004, a total of 304 ETFs were traded in the global market and assets amounted to US\$246.4 billion.



Source: Morgan Stanley and Bloomberg

From 1999 to 2004 , ETFs have experienced a rapid growth in Asia.

- Hong Kong: the first Hong Kong ETF, which is also the first ETF in Asia, was introduced in 1999. Currently, there are 5 ETFs traded in that market.
- Singapore: The Singapore ETF trading market was opened in 2000. Today,

there are 6 ETF products listed.

- Korea : The first Korean ETFs were introduced in 2002 and at present there are 4 ETFs traded in the market.
- Taiwan : The first Taiwan ETF was introduced in 2003. The market capitalization of ETFs has increased from US\$100 million initially to currently US\$1.3 billion.

III. Applications of an ETF : An Efficient Investment Tool

1、 International experience suggests that ETFs are widely used by institutional investors such as insurance companies and pension funds. This can be attributed institutional investors' recognition of indexed investments , their wide adoption of the “core and satellite” investment strategy (Refer to the China 50 ETF Application section for details), their use of ETFs as a risk-management and investment style-management instrument, their needs to mitigate fund manager selection risk and reduce fund manger supervision costs, their needs to lower transaction costs and increase trading flexibility, and finally their needs to reduce tracking errors. In July 2004, a research report issued by Morgan Stanley indicated that there was an increase of 215% in the number of institutional investors investing in ETFs in the US market over the last four years.

2、 Increasingly individual investors are also interested in ETF products. For individual investors, ETF combine the advantages of both stocks and mutual funds, and are the best index investment tool for them. As a result, the ETF's secondary market has attracted a large number of individual investors and become a very active ETF retail market. According to the statistics from Merrill Lynch, the total amount of ETFs held by individual investors amounted to US\$ 9 billion in September 2004, a great increase from US\$4.5 billion in 2003. According to BGI, 60% of their ETF growth in 2004 is driven by individual investors. In the US the large variety of ETFs has created an investment culture wherein it is common for individual investors to “when in doubt on which individual stock to buy, buy an ETF”.

Link: ETF & Index Investment

The popularity of ETFs is highly related to the wide recognition of the index investment strategy among investors.

Index investment, also called passive investment, emphasizes on an index’s trend rather than active selection of individual stocks. Active investment focuses on listed individual firms and selects stocks to construct a portfolio that may outperform the benchmark. However, empirical research suggests that active investment seldom out-perform the market. Morningstar, a well-known fund-ranking institute, has conducted a survey on the performance of all mutual funds between 1991 and 2001 (see Table 1). The findings show that most active funds have under-performed their respective benchmarks.

With people increasingly recognizing that active management only rarely out-performs the market, index-tracking passive investments are increasingly becoming popular, and accordingly the asset size in passive investments such as index funds is increasing rapidly. As illustrated in the following chart, from 1999 to the end of 2002, in most markets, the ratio of index assets to the total equity funds assets all increased.

Moreover, because of its low expense ratio, minimal tracking error, and trading flexibility, ETF is becoming the mainstream and best index investment instrument among closed-ended index funds and traditional open-ended index funds.

ETFs have also promoted the use of active index investment strategies. While passive index investments are static and pursue minimum trading costs and long-term capital increases, active index investments are dynamic index investments that include hedge funds and active trading index funds. Active index investment places emphasis on timing the market, which is believed to provide a better return if buying the index at a right time. On the other hand, passive index investment normally adopts buy-and-hold strategy and seldom makes adjustments. As the trading cost of ETFs is much lower than the creation and redemption cost of traditional index funds, ETF is especially applicable for active index investment strategy. Therefore an ETF is not only a good choice for long-term investment, but also a good tool for short-term investment strategies.

Table 1 Percentage of Active Managed Funds Under-performed the Market

	Before-tax	After-tax		USA 1991-2001		
Fund Type	Value	Hybrid	Growth			
Large-cap	84%	(93%)	76%	(94%)	56%	(82%)
Mid-cap	56%	(85%)	63%	(89%)	58%	(88%)
Small-cap	74%	(97%)	21%	(57%)	9%	(30%)

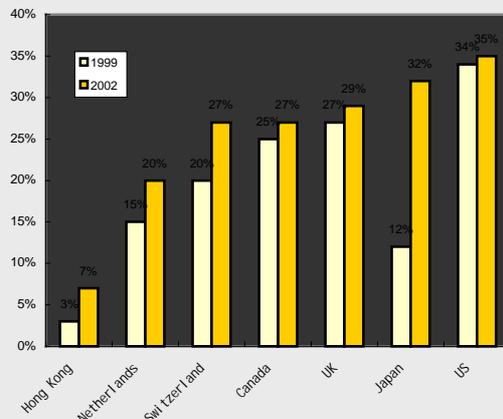


Chart 2: Passive Investment Funds’ Proportion in Equity Funds,

Source: Watson Wyatt / SSgA

[OVERVIEW OF THE CHINA 50 ETF]

The China 50 ETF is designed with a typical ETF model that tracks index with good liquidity and allows in-kind creation and redemption. In addition, The China 50 ETF can be subscribed to with cash or a combination of cash and stocks. The creation and redemption of units use the same trading and settlement mechanisms as stocks transactions, making the China 50 ETF appealing to domestic Chinese investors.

I. Product Overview

- 1、 **Name of Fund** : China 50 Exchange Traded Open-End Index Securities Investment Fund (abbreviated as China 50 ETF)
- 2、 **Unit Par Value** : RMB 1.00
- 3、 **Unit Net Asset Value**: Prior to trading in the market, unit net asset value of the fund is converted to about 1/1000 of the SSE 50 Index.
- 4、 **Dividend Policy** : Dividends may be distributed when accumulated returns exceed 1% of the same period's index returns and satisfy the time-frame requirements of dividend distribution.
- 5、 **Fund Manager** : China Asset Management Co., Ltd.
- 6、 **Technical Advisor** : State Street Global Advisors and State Street Bank and Trust Company

Link: State Street Global Advisors (SSgA)

SSgA, established in 1978, provides a broad array of investment services to investors around the world. SSgA is the world's largest institutional asset manager. By June 2004, its assets under management exceeded US\$1.2 trillion. SSgA is also the first ETF manager, and currently the manager of the largest ETF in the world, with a long and successful history of ETF development and investment management. In 1999, SSgA became the fund manager for the Tracker Fund of Hong Kong (TraHK) – the first ETF traded in Hong Kong and Asia. In 2003, SSgA assisted Taiwan Polaris to successfully launch Taiwan's first ETF – the Polaris Taiwan Top 50 Tracker (TTT).

Link: State Street Bank and Trust Company (SSB)

SSB is the largest custodian bank in the world, with custodian assets amounted to US\$9 trillion as of September 2004. In the US, SSB provides services to approximately half of the assets of mutual funds. SSB has breadth and depth experience in fund back office operations and settlements.

SSgA and SSB both belong to the State Street Corporation, which was established in 1792 in Boston, US, and today have more than 20,000 employees globally.

Source: www.statestreet.com

II. Fund Investment

- 1、 **Investment Objective** : Closely track the SSE 50 Index, minimize tracking error.
- 2、 **Investment Scope** : Invest mainly in the constituent stocks and proxy constituent stocks of the SSE 50 Index, while enhancing this investment style with small quantities of new stocks and bonds.
- 3、 **Investment Strategy** : Full replication of the SSE 50 Index.
- 4、 **Investment Management Team** : Details below

Fund Manager :

Mr. Fang Jun, 31, holds a Master's degree and has five years of industry experience. Mr. Fang joined ChinaAMC in 1999, and first acted as a research analyst covering the commercial and power industries, he then served as the assistant manager to three funds: the ChinaAMC Growth Fund, the Xing Hua Fund and the ChinaAMC Return Fund.

Financial Engineering Team:

Mr. Zhang Long, fund manger, holds a Master's degree in Economics and has acquired eight years of experience in the securities and fund industry.

Mr. Tang Jun, assistant fund manger, holds a PH.D in Financial Engineering and has three years of fund industry experience.

Mr. Yang Keyan is a quantitative researcher; he holds a PH.D in Science and has four years of experience in the securities industry.

Mr. Zhou Quan, is head of the trading department, he holds a Master's degree in International Finance and has five years of fund industry experience.

III. Fund Distribution

The unit subscription price of the China 50 ETF is RMB 1.00. Subscription is available in 3 different ways: via on-line cash subscription, off-line cash subscription and off-line in-kind subscription.

- 1、 **On-line Cash Subscription** : On-line cash subscription is available through the Shanghai Stock Exchange network system.

(1) Subscription code : 510053

(2) Subscription limit : Individual accounts may subscribe in multiples of 1,000 units and up to 99,999,000 units each time.

(3) Investors may submit more than one subscription, and accumulating subscription will not be capped.

Important Notice : The on-line cash subscription method will be available for one day only (please see Prospectus for details). Investors are required to first obtain an A share account or a fund account and prepare sufficient cash for their desired subscription amount.

2、 Off-line Cash Subscription : The subscription is available through various sales institutions.

(1) Subscription can be completed directly from ChinaAMC. The minimum subscription amount is 100,000 units.

(2) Subscription in multiples of 1,000 units can be made with various sales institutions.

(3) Investors may submit more than one subscription with no cap on subscription amount.

3、 Off-line In-kind Subscription: Subscription is made with constituent stocks through Participating Dealers.

(1) Subscription can be made with SSE 50 index constituent stocks.

(2) Subscription can be made with 10,000 shares of any single constituent stocks, or multiples of 100 shares of the respective constituent stocks thereof.

(3) Investors may submit more than one subscription with no cap on subscription limit (however, subject to the abnormal trading volume and volatility of, and subscription volume with, the constituent stock in question, and other unusual market circumstances, the fund manger reserves the right to both limit the subscription volume, and partially or wholly reject the subscriptions).

IV. Public Listing and Trading

1、 Listing Exchange : The Shanghai Stock Exchange

2、 Trading Code : 510050

- 3、 **Trading Unit** : Board lots of 100 units
- 4、 **Minimum Price Fluctuation Unit** : RMB 0.001 Yuan
- 5、 **IOPV** : Calculated once every 15 seconds
- 6、 **Trading volume not capped.**

V. Creation and Redemption

- 1、 **Creation and Redemption Code** : 510051
- 2、 **Minimum Creation and Redemption Amount**: 1,000,000 units or whole multiples thereof.
- 3、 **Index Basket for Creation and Redemption** : The Index Basket will be released by ChinaAMC through the exchange trading system, on the exchange web site, as well as on the ChinaAMC official web site every trading day before the market opens.
- 4、 **Creation and Redemption Methods** : With baskets of stocks, cash in lieu of index shares , balancing cash, and other means.
- 5、 **Cash in Lieu**: Investors can use certain amounts of cash to replace stocks lacking in their baskets of stocks. There are three types of cash in lieu: restricted, optional, and compulsory.
 - (1) **Restricted cash in lieu**: For creation and redemption transactions, certain constituent stocks are not allowed to be substituted with cash.
 - (2) **Optional cash in lieu**: When subscribing to fund units, investors are allowed to use cash to replace all or part of the constituent stocks. But when redeeming units, investors are restricted from using cash replacement.
 - (3) **Compulsory cash in lieu**: For certain constituent stocks, investors must use cash to make creations and redemptions.

VI. Fund Expenses

- 1、 **Fund Management Fee** : 0.5% of fund net asset value, adjustable up/downwards depending on fund scale.
- 2、 **Fund Custodian Expense** : 0.1% of fund net asset value, adjustable up/downwards depending on fund scale.

3、 **Subscription Fee** : No more than 1% of subscription amount.

4、 **Secondary Market Trading Cost** : Broker commissions are no more than 0.25% of traded value.

5、 **Creation and Redemption Cost** :

Agent securities companies in charge of creation and redemption (hereon in, Participating Dealers) can charge a commission no greater than 0.5% of the creation and redemption volume (including brokerage and registration costs). The brokerage and registration fees for transactions with the Shanghai Stock Exchange and the China Securities Depository & Clearing Co., Ltd will be reduced or waived.

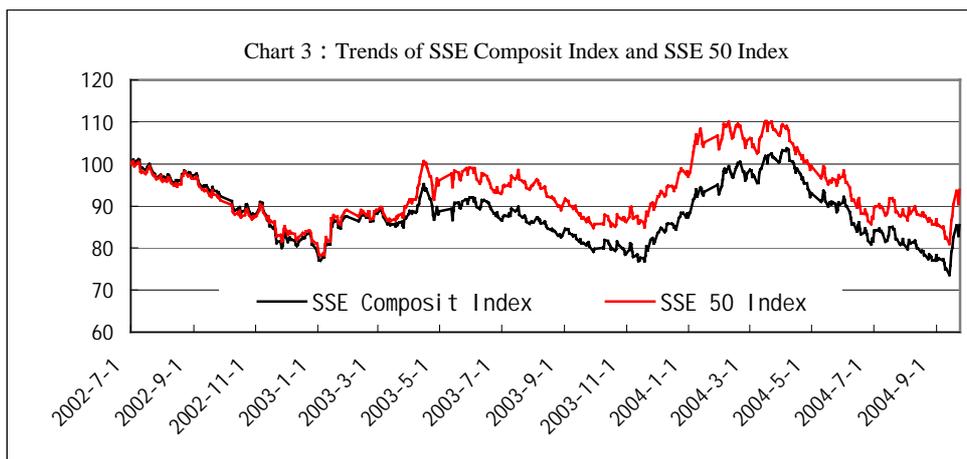
[BENEFITS OF THE CHINA 50 ETF]

The China 50 ETF has the similar risk characteristics and returns of SSE 50 Index. Its arbitrage mechanism enables the China 50 ETF to avoid significant price discount in the secondary market like most closed-ended funds. Compared to traditional open-ended funds, the ETF can be traded simply on the stock exchange, and the minimum investment threshold is lower. Furthermore, in contrast to traditional open-ended index funds, the China 50 ETF incurs lower costs, simpler trading procedures and lower tracking error. The most uniqueness when comparing to traditional equity funds is the in-kind creation and redemption, and its arbitrage mechanism. All together, these advantages empower the China 50 ETF to be a comprehensive and powerful investment tool.

I. The China 50 ETF's Risk and Return Features Mirror those of the SSE 50 Index

The China 50 ETF closely tracks the SSE 50 Index and expects similar average market returns.

- 1、 With blue chip index investment value, the SSE 50 Index achieves the same average return as the market.



The SSE 50 index in 2002 and 2003: Shanghai Securities Exchange data.

(1) The SSE 50 index highly represents the market.

Since the beginning of 2004, the ratios of total market and tradable market capitalization of the SSE 50 Index to that of SSE A share market have been rising (See

Table 2), showing that the SSE 50 Index continues to improve its market representation.

Table 2 : SSE 50 Index's Market Representation

Date	Total Market Cap as a % of Shanghai Market Cap		Tradable Market Cap as a % of SSE Market Cap	
	In RMB 100 M	Percentage	In RMB 100 M	Percentage
2004-9-30	12721	45.04%	2546	33.01%
2004-6-30	12379	44.19%	2348	31.17%
2004-3-31	14545	42.33%	2763	29.74%

Source : Tian Xiang Investment System

(2) SSE 50 Index constituent stocks possess blue chip features

The SSE 50 Index consists of leading companies from industries such as petrochemical, banking, shipping, steel, power, telecommunication, automobile, pharmaceutical, and home electrical appliance industries. These companies are mainly large-scale enterprises, such as Sinopec, China Merchants Bank, Pudong Development Bank, Yangtze Power, Shanghai Airport, China Overseas Shipping, Bao Steel, Wuhan Steel, Huaneng Power, China Unicom, Shanghai Automobile, Northern China Pharmaceutical, Sichuan Changhong etc. It is these companies that lead China's economic momentum and can capture the upward trends and growth of the China market. (Please refer to the Appendix for a detailed list of the SSE 50 constituent stocks.)

As shown in Table 3, by the end of September 2004, the SSE 50 Index constituent stocks accounted for 6% of the Shanghai A share market in terms of the number of listed companies. The tradable market capitalization of the SSE 50 Index accounted for 33% of that of all the SSE A share market. Furthermore, the dividends of SSE 50 Index was 41% of that of the total disbursed dividends on the SSE A share market. Albeit strong profitability, the SSE 50 stock average P/E ratio is only 15.7. Looking at the above indicators, we see that the SSE 50 constituent stocks possess the typical features of blue chips stocks including strong profitability, large market capitalization and low P/E ratios.

Table 3 : SSE 50 constituent stocks indicators (As of 2004-9-30)

Indicators		SSE 50 constituent stocks	SSE A Shares
Number of listed Companies		50	828
Tradable Market Cap. (RMB 100 Million)		2546	7713
Dividend Paid by Tradable Stocks (RMB 100 Million)		36	88
EPS (RMB)	Interim 2004	0.19	0.157
	2003	0.278	0.237
P/E (times)	Interim 2004	15.7	19.73
	2003	24.43	28.41
Growth Rate of Operating Profitability (%)	Interim 2004	38.75	33.94
	2003	36.63	27.28
Return on Net Asset (%)	Interim 2004	7.21	5.35
	2003	10.9	8.16

Data Source : Tian Xiang Investment System

(3) SSE 50 Index constituent stocks have high liquidity

The liquidity of SSE 50 Index constituent stocks is superior to the market average, providing a solid foundation for creation and redemption, as well as for the implementation of various investment strategies, and lowering the liquidity risk for investors.

Table 4 : Comparison of Index Constituent Stock Liquidity (2004.1.2-2004.9.30)

Category	Average Daily Trading Volume of Individual Stocks (RMB 10,000)	Average Turnover Rate (%)	Average Daily Minimum Trading Volume of Individual Stocks (RMB 10,000)
SSE 50 Index Constituent Stock	7532	263	431
SSE A Shares	1432	255	56

Data Source : Tian Xiang Investment System

(4) High Correlation of the SSE 50 Index with the SSE Composite Index

As shown in Table 5, the correlation coefficient between the SSE 50 Index and the SSE Composite Index is as high as 0.97, indicating that the SSE 50 Index is highly correlated to the SSE Composite Index, which includes all the stocks in the Shanghai stock market.

The Coefficient is slightly higher than 1, due to the value revealing cycle undertaken by some blue chip stocks included in the SSE 50 Index since the end of 2002, which makes the SSE 50 Index perform better than the SSE A share market, pushing SSE 50 Index's risk level slightly higher than the market average. However with a positive , extra returns are also captured.

Table 5 : SSE 50 Index Risk-return Indicators

Date	Correlation coefficient	Standard deviation	coefficient	coefficient
7-1-2002 to 9-30-2004	0.9699	0.01441	0.08801	1.03487

SSE 50 index data in 2002 and 2003 as simulated from data published by the Shanghai Stock Exchange.

Data Source : Tian Xiang Investment System

2. Low tracking error of the China 50 ETF is combined with the beneficial risk and return structure of the SSE 50 Index

The China 50 ETF is formulated to fully replicate the SSE 50 Index. In-kind creation and redemption ensures low cost transactions, and helps greatly reduce tracking errors.

Table 6 shows the simulated tracking error of the China 50 ETF based on a fund size of RMB 5 billion. From July 2002 to July 2004, the simulated annualized tracking error of China 50 ETF is 0.3574%.

Table 6. Tracking Error Simulation for the China 50 ETF

(Assumption of RMB 5 billion AUM)

INDICATORS	Stock basket creation and redemption
Tracking Error during 7-1-2002 and 7-30-2004	0.5054%
Annual Tracking Error during 7-1-2002 and 7-30-2004	0.3574%

Source: ChinaAMC. Data for the SSE 50 Index in 2002 and 2003 originates from simulated data offered by the Shanghai Stock Exchange.

II. Public Listing and Trading Flexibility

Publicly listed and traded the China 50 ETF provides investors with multi benefits:

1. Timely Trading at Market Price

The China 50 ETF is publicly listed on the Shanghai Stock Exchange, and can be traded continuously like a stock. Investors can buy or sell at real-time prices and better control transaction price.

2. Efficient Use of Capital

The Shanghai Stock Exchange adopts net price settlement. Investors may use the proceeds from same day sales of the ETF with cash transferred on the next trading day.

3. Easy Trading

Investors with A share stock or fund accounts may trade the China 50 ETF through any securities companies, or ChinaAMC's on-line platform or call center.

III. Low Cost

The China 50 ETF has lower transaction costs and fees than traditional equity funds:

1. Low operating cost

(1) Low management fee and custodian fee

The management and custodian expenses are less than half of the current average fees for domestic index funds, and far cheaper than those of actively managed equity funds.

Table 7 : Current Index Fund Expenses

Fund Name	Fund Management Cost	Custodian cost	Cost of holding for one year
Yin Hua 88	1.20%	0.25%	1.45%
E-fund 50	1.20%	0.20%	1.40%
Rong Tong 100	1.00%	0.20%	1.20%
Hua An 180	1.00%	0.20%	1.20%
Tian Tong 180	1.00%	0.20%	1.20%
Boshi Yufu	0.98%	0.20%	1.18%
Average Index Fund	1.05%	0.21%	1.26%
Average Active Fund	1.50%	0.25%	1.75%
China 50 ETF	0.50%	0.10%	0.60%

Source of data: Tian Xiang Investment System

(2) Low transaction costs on securities trading

The China 50 ETF allows in-kind creation and redemption and aims to fully replicate the SSE 50 index. This significantly reduces the fund's trading activities and therefore also reduces the transaction costs. Moreover, the fund does not capture the market fluctuation costs resulting from the creation and redemption activities of short-term investors. In 2003, the total net asset of closed-ended funds in China was RMB 85,872,610,533.29; according to these funds' annual reports. However, the total trading commissions paid for the year by these funds was RMB 160,127,155.22, and accounted for 0.19% of the funds' total net asset value: a cost that will not be incurred by the ETF.

Low operations expense particularly important for long-term investors who take a buy-and-hold approach. Saving on transaction costs enables more funds for investments and higher long-term returns. Assuming an investor subscribes to both the China 50 ETF and an "A" fund with RMB 10 million (excluding creation fee) each, the annual cost of the China 50 ETF is 0.6%, while that of the "A" fund is 1.2%. If this investor holds the investment with no interim transactions and the annual returns of the two funds are both 10%, then in five and ten years, their respective returns will be as shown in the following table:

Table 8 : Impact of Expense Difference on Long-term Investors

Comparison Items	China 50 ETF	“A” Fund	Difference
Annual Expense Rate	0.6%	1.2%	0.6%
Return in 5 Years	RMB 15,201,500	RMB 14,393,200	RMB 808,300
Return in 10 Years	RMB 16,621,300	RMB 15,547,600	RMB 1,073,800

Source: ChinaAMC

2. Low costs

(1) Low secondary market trading costs

Trading costs on the secondary market for the China 50 ETF mirror those of close end funds, and additionally no stamp tax is applicable, thus sharply cutting transaction costs for short-term investors.

(2) Low creation and redemption fee

Creation and redemption fees for the China 50 ETF are no more than 0.5% of the creation or subscription amount, and are generally lower than that of open-ended equity funds. The Shanghai Stock Exchange and the China Securities Depository & Clearing Co., Ltd have accepted to reduce or waive their brokerage and registration fees for the China 50 ETF.

However, investors have to bear their own transaction cost for buying the index basket for creation, or selling off the index basket for cash at the time of redemption. This will benefit long-term investors who make few purchase and redemption transactions.

IV. Efficient Creation and Redemption Mechanism

The greatest innovation for the China 50 ETF and what differentiates the product from previous open-ended funds is the in-kind creation and redemption mechanism. This helps significantly lower the fund’s trading activities and therefore the costs, enables an arbitrage mechanism to run between the primary and secondary markets, and meets investors’ demands for efficiently adjusting their holding positions etc.

The China 50 ETF’s creation and redemption can be processed real time, thereby

significantly enhancing the capital and securities efficiency.

1. Real-time transactions

Typical open-ended funds adopt a forward pricing mechanism under which all subscriptions and redemptions must be settled at a price that is based on the fund net asset value calculated with the daily closing prices. Investors are unaware of the transaction price entailed in their subscription and redemption applications. In contrast, the China 50 ETF can be created and redeemed through real-time transactions through the Shanghai Stock Exchange trading system. By purchasing stock baskets prior to creation, or by selling stock baskets immediately after redemption, investors can see the costs or returns of their investments in the China 50 ETF.

2. Efficient use of capital and securities

Investors may buy index baskets for creation of the China 50 ETF units and then sell those units on the secondary market within a same trading day. Similarly, investors may buy the China 50 ETF units on the secondary market for redemption, and then sell the index baskets collected from the redemption to the secondary market within a same trading day. This significantly enhances the capital and securities efficiency.

If investors choose to increase transactions between the primary and secondary market, they can multiply the efficient use of their capital (please see China 50 ETF Applications).

V. Arbitrage Mechanism

The unique arbitrage mechanism differentiates the China 50 ETF from other stocks and funds.

When trading price in the secondary market of the China 50 ETF deviates from the fund's net asset value, investors may engage in arbitrage to earn risk-free returns. The details of arbitrage transactions can be found in the China 50 ETF Applications section.

The arbitrage mechanism keeps the trading price of the China 50 ETF in line with its net asset value, ensuring a fair value, which protects the interests of investors in the

secondary market.

VI. Multi-purpose Investment Tool

ETF is a powerful investment tool, which can help investors fulfill their investment needs and reach their strategic targets.

Because of its risk and return features, unique trading flexibility, arbitrage mechanisms and low costs, the China 50 ETF is an investment tool with multiple functions that can be widely applied in investment portfolio management.

[CHINA 50 ETF APPLICATIONS]

The China 50 ETF can help investors accomplish various goals and is an excellent vehicle for stock re-investment, asset allocation, long-term investment, arbitrage, as well as gaining margin from day trading and short-term trading.

I. Stock Re-investment

China 50 ETF constituent stocks can be transformed into China 50 ETF units, thus diversifying risk, and improving portfolio liquidity for investors. Stock re-investment methods include:

- (1) Subscription of the China 50 ETF with individual constituent stocks during the initial offering period.
- (2) Creation of the China 50 ETF with index baskets after the fund is launched.
- (3) Using some of the SSE 50 constituent stocks into to purchase the China 50 ETF through participating dealers.

II. Asset Allocation

The core and satellite allocation strategy has been widely used by institutional investors. ETFs that track blue chip indices are generally considered the ‘core’ or most substantive assets by institutional investors, while those ETFs tracking industry indices or certain investment styles or geographic regions, are usually considered ‘satellite’ or diversifying assets, as shown in Chart 4. Through ETF characteristics, which provide transparency and easy transaction, institutional investors can easily adjust their portfolios according to their needs without the hassle and cost of multiple stock trading.

Distinct ETFs usually represent specific risk-income levels and asset types, enabling

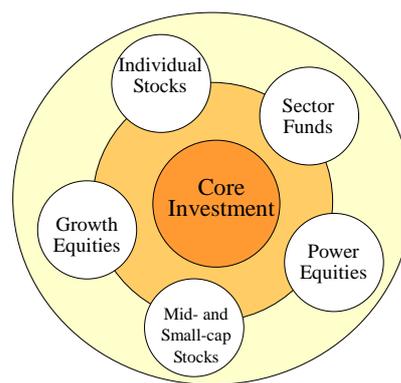


Chart4 : Core and Satellite Asset Allocation Method

(Source: Morgan Stanley Equity Research)



Chart 5: Equity Risk Pyramid

(Source: Morgan Stanley Equity Reasearch)

their use as institutional investors' risk and investment type management tool. The normal risk levels of different types of equity are shown in Chart 5.

The China 50 ETF, with its characteristics of tracking the SSE 50 Index and investing in large-cap value stocks, belongs to low risk and medium dividend category. The China 50 ETF can act as investor's core allocation to prevent their investments from underperforming the market. Holding this core strategy, investors can further enhance their returns with subsequent 'satellite' investments in other preferred asset classes such as specific industry stocks, growth stocks and various other funds.

Link: Success of Asset Allocation

Analysis indicates that portfolio performance is most dependent on asset allocation rather than individual stock selection. Despite these results, investors still tend to devote more time on individual stock selection. The small contributions to portfolio performance stemming from individual stocks can partially be attributed to the existence of comparative price interactions that drive stocks of the same asset class to fluctuate when an individual stock fluctuates. Because of these comparative price interactions, it is very difficult to outperform an industry or asset class with an individual stock picking strategy. Holding a core strategy and enhancing it with subsequent investments ensures a strong asset allocation and allows for flexibility and diversity of the 'satellite' investments. Thus the China 50 ETF can help investors focus on the more compelling and successful asset allocation strategy.

III. Long-term Investment

As released in a report by the "China Economic Situation Monitoring Center of the National Bureau of Statistics of China" in October 2004, 80% of economists believed that the growth of the Chinese economy in 2005 will exceed 8%, and forecasted that the Chinese economy would maintain its robust growth and development momentum for a long period. As an indicator of the Chinese economy, SSE 50 Index would capture the growth of China's best companies. Investors may buy and hold the China 50 ETF to enjoy the long-term capital gains of the bullish index.

IV. Arbitrage Trading

When prices in the secondary market deviate from the Fund NAV, arbitrage is an important mechanism to capture price discrepancies and to gain risk free returns. Investors may undertake multiple transactions in a single day, thus adding to the liquidity of the market and resulting in the fair value trading of the ETF.

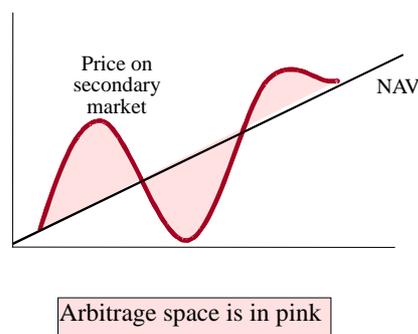


Chart 6 : Arbitrage Trading

Specific arbitrage practices include:

(1) In the case that the ETF price in the secondary market is less than the fund NAV, investors can purchase the ETF in the secondary market and redeem the ETF unit and then sell the basket of stocks in the secondary market.

(2) In the case that the ETF price in the secondary market is higher than the fund NAV, investors may purchase a basket of stocks in the secondary market and create the ETF units which can then in turn be sold in the secondary market.

V. Timing the Market

The China 50 ETF is a securities portfolio composed of the 50 constituent stocks of the SSE 50 Index. Buying and selling the China 50 ETF is equivalent to buying and selling a basket of these constituent stocks.

For those institutions that need to regularly adjust stock holdings in large volumes when the market fluctuates: directly increasing or reducing their holdings of the China 50 ETF may avoid the workload and costs of trading many stocks. Indeed the China 50 ETF allows investors to promptly enter or exit the market without fostering significant impact on stock prices. The China 50 ETF with its convenient buy/sell structure provides added ease and efficiency to those dealing.

VI. Short-term Trading

Institutional investors may actively trade the China 50 ETF to benefit from the daily and short-term (greater than one day) volatilities. Specific practices include:

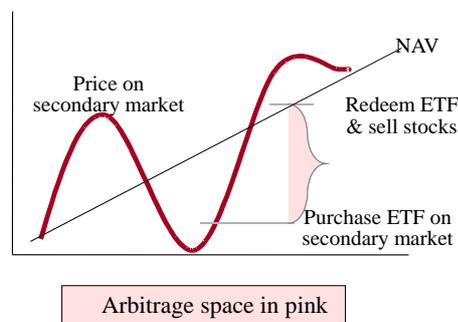


Chart 7 : Day trade on price fluctuations

Daily fluctuation practices: Initiate multiple operations in the primary and secondary markets (equivalent to arbitrage). Investors can earn profits without moving large volumes of funds.

Short term fluctuation practices: Buying ETF if bullish on the short term and selling ETF if bearish, enables investors to earn price differences according to their short-term forecasts.

VII. Cash Management

The China 50 ETF's high liquidity through our efficient settlement mechanisms, together with its strong diversification, makes it a beneficial tool for cash management. Investment managers can use the China 50 ETF as an investment tool to temporarily equitize the cash reserves in the portfolio before they decide into which stocks they wish to invest. When stock market trends are unclear, investing in the China 50 ETF can also ensure that investment managers will not miss the next upward boom in market performance.

VIII. Managing Assets over Transition Periods

As institutional investors change investment managers, the China 50 ETF can be used as a transitional investment tool and a means to ensure a smooth strategy change. Prior to the appointment of new investment managers, portfolio assets can be converted into China 50 ETF units to fully maintain investment value. Once new investment managers are selected, the China 50 ETF units can then be liquidated or redeemed for a basket of stocks, which can be directly handed over to the new managers.

IX. Developing Related Derivative Products

Because of its low cost and high liquidity, the China 50 ETF can be used by relevant financial institutions to build derived financial products such as principal-guaranteed funds, structured products, and investment-linked life insurance products.

X. A Tool for Easy Access to Chinese Capital Markets

As the largest emerging market in the world, China is an indispensable component of a global investment portfolio. The China 50 ETF offers Qualified Foreign Institutional Investors (QFII) and their clients, the best method to promptly and cost-efficiently invest in Chinese capital markets.

As policies are further developed and improved, the China 50 ETF will also become an investment target for other funds and the underlying stock for other derivatives.

We believe that the China 50 ETF is appropriate for those institutional investors:

- Seeking more investment control.
- Seeking more efficient asset allocation tools.
- Seeking better diversified investment products.
- Seeking to invest in SSE 50 Index or Chinese capital markets.
- Seeking low risk investment returns.
- Seeking short-term returns.
- Investors investing in the stock market for the first time, or not familiar with individual Chinese stocks.
-

[ABOUT CHINA ASSET MANAGEMENT]

Company Overview

- One of the first national fund management companies approved by the China Securities Regulatory Commission (CSRC)
- ChinaAMC was among the first 6 qualified fund management companies to manage the National Social Security Fund.
- Among the fund management companies with the greatest number of funds under management:
- One of the fund management companies with the largest AUM: by the end of September 2004, the company's AUM was close to RMB 30 billion.
- Has gained stable and abundant investment returns since its beginnings in 1998, with accumulated dividends to investors exceeding RMB 4 billion.
- ChinaAMC launched China's first optimized index fund in July 1999; the Xing He fund, giving ChinaAMC experience in index investment over a complete up/down market cycle.
- Complete open-end fund product line

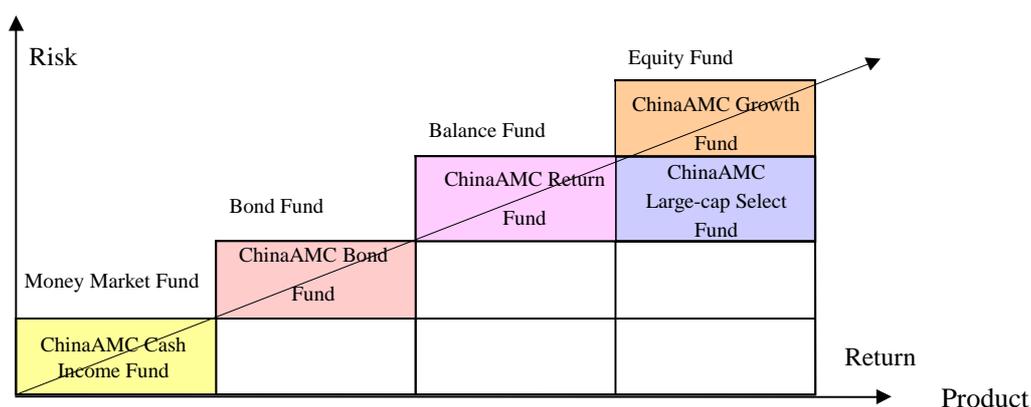


Chart 8: ChinaAMC open-end fund product line

Investor Recognition

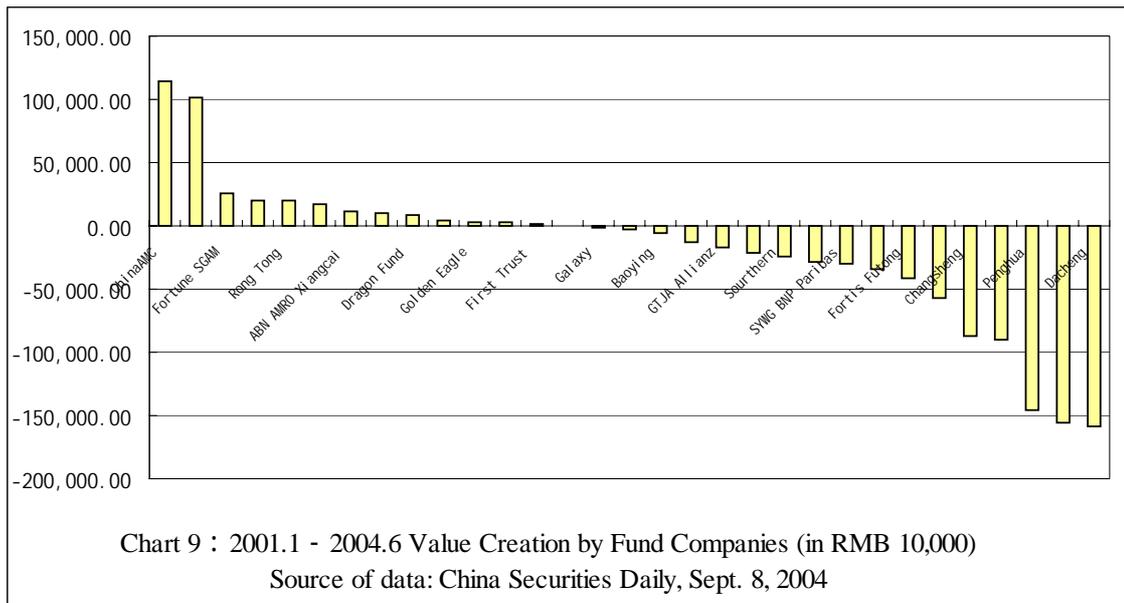
- China Merchants Bank Sunflower Wealth Management Report 2003 designated

ChinaAMC as the “Most Recognized Fund Management Company in China”.

- ChinaAMC was awarded the accolade “the most recognized and most attractive” by the Horizon Research in February 2004.
- ChinaAMC was awarded the “Best Fund Management Company Award” in April 2004 by Morningstar (China) and Shanghai Securities News.
- In September 2004, according to a China Galaxy Securities survey of all Chinese fund companies from 2001 to the first half of 2004, ChinaAMC created the highest value for its clients. (Refer to Chart 9)

Customer Service

- Customer service hotline : 010-88092666
- Various trading methods: via fax, Internet, branches, etc.
- One-to-One personalized investment consulting
- Investor seminars
- Special institutional investor services
- Popular online communication platform for all fund investors at www.ChinaAMC.com
- Customized services, including market updates, phone reminders, and customized email information etc.



[Q&A]

1. ETF: What is the difference between ETFs, stocks and typical funds?

Table 9 : Comparison of ETF, fund and stock investments

Advantages	ETF	Fund	Stocks
Diversification	✓	✓	✗
Trading by public listing	✓	✗(excluding close-end funds)	✓
Safety deposit	✓	✗	✓
Tracking index or industries	✓	✗ (Excluding index funds)	✗
Lower fees	✓	Sometimes applicable	N / A
Tax benefits	✓	✓	✗
Arbitrage	✓	✗	✗

Source: Prospectus of these funds.

2. Why the China 50 ETF rather than open-ended index fund?

Answer : The China 50 ETF not only benefits from all the advantages of a traditional index fund, such as diversified investments and gaining index returns, but also enjoys such outstanding advantages as ease of trading, lower costs and low tracking error. It is the best index investment tool available: combining the benefits of a fund and a stock and greatly surpassing the attractiveness of current index funds.

Table 10 : Comparison of closed-ended index funds, open-ended index funds and our ETF

ITEM	Closed-ended Index Fund	Open-ended Index Fund	CHINA 50 ETF
Deviation from tracking target	Small	Small	LEAST
Portfolio transparency	Top 10 holdings disclosed in quarterly reports	Top 10 holdings disclosed in quarterly reports	Daily publication of entire portfolio components
Trading Flexibility	High	Low	Highest
Trading price	Discount from fund NAV 20%	Identical with daily NAV	In line with real time NAV
Investment threshold	Around RMB 100 Yuan	RMB 1000 Yuan	Around RMB 100 Yuan
Capital efficiency	T+1	Within T+5 Days	T+1
Average management fee	1.25%	1.05%	0.5%
Trading cost	0.25%	Creation Fee 1.46% Redemption Fee 0.29%	Creation: 0.5%; or Stock Exchange: 0.25%

Source: ChinaAMC

3. What is the difference between an ETF and a LOF?

Answer: The similarity of a Listed Open-ended Fund (LOF) and an ETF is that both have dual trading channels: trading the fund units on a secondary market as well as through subscription and redemption with the fund manager. However the product characteristics and trading methods differ widely.

Table 11: Comparison between an ETF and a LOF in the China mainland

	ETF	LOF
Product Type	Mostly index equity funds	Varies
Portfolio Transparency	Daily	Top 10 holding released quarterly
Management Fee	0.5%	1.5%
Custodian Fee	0.1%	0.25%
Creation & Redemption Cost	=<0.5%	Creation =<1.5%, Redemption 0.5%
Creation & Redemption Method	In-kind	Cash
Connection between Two Trading Methods	Arbitrage can be completed within one day	2 working days

Source: ChinaAMC

4. Where and how to purchase the China 50 ETF?

Answer : During the initial offering period (IPO), investors can subscribe to the China 50 ETF units through Participating Dealers (a list of which is included in the Prospectus) by means of on-line cash subscription, off-line cash subscription or off-line in-kind subscription. Before submitting the subscription, institutional investors must complete the following:

- 1) Confirm subscription method, and contact your sales consultant;
- 2) Read the “Fund Contract” and “Prospectus” to become familiar with the China 50 ETF product details.
- 3) If you would like to participate in arbitrage activities on the secondary markets, it is necessary to acquire the adequate software.
- 4) Verify that the A share trading account and/or fund account has been prepared.
- 5) Ensure that there are adequate cash or constituent stocks for subscription in

your account or stock account. Prepare documentation for the subscription process. (Please refer to the “Prospectus” for details)

6) Contact your sales consultant, and go through subscription procedures.

Investors must pay special attention to the launching and subscription schedules of various offering methods, in order not to miss any investment opportunities.

5. How to obtain more information concerning the China 50 ETF?

Answer : Investors can obtain more information via the following channels;

- 1) Consulting our specialized on-line ETF section at www.ChinaAMC.com
- 2) Visiting the Shanghai Stock Exchange Website at www.sse.com.cn ;
- 3) Calling our customers service hotline : 010-88092666 ;
- 4) Dialing the customer service lines in your local sales agencies.

[APPENDIX]

I. Constituent Stocks of the SSE 50 Index

Table 12: Constituent stocks of SSE 50 Index

Constituent stocks of SSE 50 Index (October 22, 2004)					
Code	Name	Weight %	Code	Name	Weight %
600050	China Unicom	9.59	600808	Maanshan Steel	1.4
600900	Changjiang Electricity	7.56	600004	Baiyun Airport	1.35
600036	China Merchant Bank	6.18	600002	Qilu Petrochem	1.3
600019	Baosteel	5.39	600030	CITIC Securities	1.28
600028	China Petrochem	4.5	600649	Raw Water Sup	1.25
600016	Minsheng Bank	4.28	600887	Yili Industrial	1.25
600009	Shanghai Airport	4.06	600895	Zhangjiang Hi-tech Park	1.21
600000	Pudong Development Bank	3.08	600171	Shanghai Beiling	1.13
600005	Wuhan Steel	2.97	600008	Beijing Capital	1.08
600018	Shanghai Port Container	2.96	600569	Anyang Steel	1.01
600104	Shanghai Auto	2.27	600205	Shandong Aluminum	0.95
600839	Changhong Elec	2	600006	Dongfeng Automobile	0.92
600029	Southern Airline	1.98	600350	Shandong Infrastructure	0.91
600642	Shenneng Energy	1.9	600812	North China Pharma	0.87
600015	Huaxia Bank	1.88	600020	Zhongyuan Expressway	0.84
600601	Fangzheng Technology	1.87	600021	Shanghai Electricity	0.84
600688	Shanghai Petrochem	1.76	600811	Oriental Co.	0.78
600795	Guodian Power	1.7	600652	Aishi Co.	0.77
600664	Harbin Pharm Group	1.65	600637	SVA Information	0.73
600100	Qinghua Tongfang	1.62	600591	Shanghai Airline	0.69
600832	Oriental Pearl	1.56	600643	A J Co	0.68
600026	Zhonghai Ocean Shipping	1.52	600033	Fujian Expressway	0.67
600717	Tianjin Harbor	1.42	600705	North Asia Group	0.65
600011	Huaneng (China Energy) International	1.4	600609	Jinbei Automot	0.48
600602	Guangdian Electronics	1.4	600805	Yueda Investment	0.45

Source: ChinaAMC

II. Index Methodology of SSE 50 Index

◆ Selection of Constituents

- 1) Index Universe: Constituents of the SSE 180 Index
- 2) Number of Constituents: 50

- 3) Selection Criteria: Size and liquidity
- 4) Selection Method: Rank the stocks by tradable market cap and trading volume. In principle, the top 50 ranked stocks will be selected, except those with abnormal market performance and/or considered by the Index Advisory Committee as inappropriate constituents.

◆ Index Calculation

The SSE 50 Index is calculated using a Paasche weighted composite price index formula and weighted by the adjusted number of shares.

The formula is

$$\text{Current index} = \frac{\text{Current adjusted market cap of constituents}}{\text{Base Period}} \times 1000$$

$$\text{Adjusted market cap} = \text{Price} \times \text{Adjusted No. of shares.}$$

The SSE 50 Index uses the category-weighted method (as indicated by the following chart) to adjust constituent shares.

Table 11: SSE 50 Index's adjustment

Negotiable Market Cap Ratio (%)	=10	(10,20)	(20,30)	(30,40)	(40,50)	(50,60)	(60,70)	(70,80)	>80
Weight (%)	Negotiable Market Cap Ratio	20	30	40	50	60	70	80	100

◆ Index Maintenance

1) Maintenance formula

The “Divisor Adjustment Methodology” is used to adjust the SSE 50 Index.

When changes occur to the constituent list or the share structure, or if the constituents’ market value changes due to non-trading factors, the divisor is adjusted to keep the index comparable overtime.

The formula is:

$$\frac{\text{Adjusted Market Cap before Adjustment}}{\text{Old Divisor}} = \frac{\text{Adjusted market Cap after Adjustment}}{\text{New Divisor}}$$

Adjusted Market Cap after Adjustment = Adjusted Market Cap before adjustment +
Adjusted Market Cap increased or decreased

The new divisor (also called new base period) derived from this formula is used for later index calculation.

2) Circumstances for index maintenance

- a) Dividend: No index adjustment is required for dividend payment and the index is allowed to “fallback” naturally.
- b) Right issue and bonus issue: The index is adjusted the day before the issuance.
Adjusted Market Cap after the Adjustment = Adjusted Price × Adjusted No. of Shares + Adjusted market Cap before the Adjustment (excluding stocks adjusted for right issue and bonus issue)
- c) Suspension from trading: Use last trading price to calculate index until trading is resumed.
- d) Delisting: Adjust the index the day before the delisting.
- e) Share changes: When shares of constituents change due to other reasons (e.g. re-issuance, listing of right issue, listing of employee shares), the index is adjusted the day before the changes.
- f) Trading cessation: When only part of the constituent stocks incur trading cessations, the index will be calculated as usual. When all the constituent stocks have trading cessation, the index calculation will stop.

◆ Index Adjustment

The SSE 50 Index will make constituent adjustments every 6 months following the principle of Static and Dynamic Tracking. The timing for adjustments is consistent with that of the SSE 180 Index. Temporary adjustments may be made under special circumstances.

The number of constituents adjusted each time should not exceed 10%. A buffer margin is setup in the constituent adjustments. Stocks ranked in the top 40 will be given priority for addition into the index, while old constituents ranked in the top 60 will be given priority to remain in the index.

(Source: Shanghai Stock Exchange)