

China SME ETF



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[Abstract]

The national economy and capital market in China will witness a rapid growth over the long run while SMEs (Small and Medium Enterprises) will be at the forefront of it. Given the fast revenue growth, strong profitability and lower level of valuation of the SME Board, one more good choice to allocate assets and increase income has thus been created for investors. With the asset allocation via indexing investment, it is possible for investors to diversify the risks in individual stocks of the SMEs as well as sharing fully the benefits from the market rise. The SME Index that is highly representative and investable with good liquidity will be an excellent indicator for indexing investment. In addition, the China SME ETF will be a highly efficient investment tool for investors to make asset allocations ~~in-on~~ the SME Board.

High Investment Value

In terms of growth of the indices, the rise of the SME Board Index is much higher than the main board; in terms of the increase in revenue and profitability of enterprises, the growth of the SME Board is also obviously stronger than that of the main board and its profitability financial indicators are again stronger than the averages of A-share markets at both the Shanghai and Shenzhen Stock Exchanges. In addition to growth factors, the SME Board also possesses conspicuous valuation advantages; it is of relatively high investment value. Moreover, with its sharp-cut investment style, the SME Board is a good choice for asset allocations and the increase of income.

Diversified Risks

Indexing investment in SME Board will avoid risks of active management. Diversified investment may fully lower risks in individual stocks, and it may also garner from it the average level of return at minimum cost and lower risks on the basis of effectively dispersing the relatively high non-system risks from SMEs.

Excellent Benchmark

The SME Board Index covers all the 50 stocks on this board and it is the very first full-floating index, capable of reflecting fully and accurately the movement and changes of SME Board prices. Also, the trading of the SMEs has been active all the time, especially after the completion of non-tradable-shares reform, the market attention and participation have been on the further increase, and its liquidity has been obviously advantageous over the main board. The SME Board Index is highly volatile but with better income, which is a good benchmark for indexing.

Highly Efficient Investment Tool

Characterized by ETF's high efficiency in investment, the China SME ETF's listing at the Shenzhen Stock Exchange will also make it possible to make creation and redemption with a basket of stocks, to get a grip on trading prices at any time for the efficient utilization of funds, and to make arbitrage transactions ultimately. Because of the passive investment strategy, both operation costs and transaction costs will be relatively low. Furthermore, the in-kind creation and redemption mechanism greatly reduces the transaction costs and market impacts. Also, the costs for frequent trading by investors will be on their own accounts, which is therefore more scientific and reasonable.

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[ChinaAMC: the ETF Expert]

The Exchange Traded Fund (ETF) refers to an index fund traded at exchanges like a stock. Its trading price and fund NAV are basically consistent with the index it tracks. Therefore, if an investor buys and sells one ETF, it means that he has brought and sold a basket of stocks contained in the index it tracks. So he can garner the yield basically consistent with this index. Due to the combined advantages of both the stocks and the funds together with benefits of both the open-end funds and the closed-end funds, the ETF has become one of the most successful financial innovations since the 1990s and has been widely recognized at internationally markets.

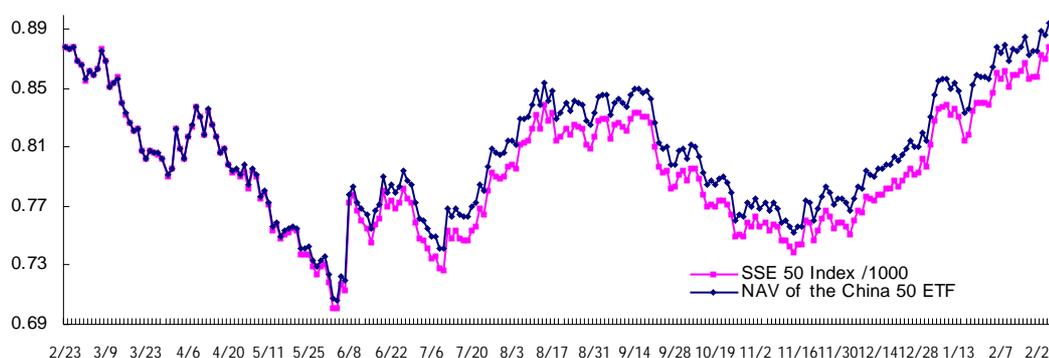
In January 2004, ChinaAMC was approved to cooperate with the Shanghai Stock Exchange (SSE) in developing the first ETF in mainland China. Through close cooperations with multiple parties, on December 30, 2004, the China 50 ETF, the first ETF in China, was established. Under the continuous sluggish market conditions, it performed a miracle of the IPO in RMB 5.435 billion with a breakthrough of RMB 10 billion during a certain period of time. The launch of the China 50 ETF began the era of ETF in China, it has drawn many renowned domestic and overseas investors as well as masses of individual investors. ETF has been recognized by the market as a highly efficient investment tool. Its investors include:

- The National Council for Social Security Fund (NCSSF);
- QFIIs
- Insurance companies
- Various large institutional investors
- Individual investors...

The China 50 ETF opened its creation and redemption on February 23, 2005 with listing at the Shanghai Stock Exchange. Now it has been over a year since its listing, and the fund has achieved initial success with good performance indicators including premium/discount rate, turnover rate, tracking transparency and tracking errors. All these indicators could be compared favorably with the best ETFs in the Asia Pacific region. The fund successfully tracks the SSE 50 Index, with an accumulative tracking deviation of 1.99% and average daily tracking error of 0.09% only as of the date of conversion of fund units up to December 31, 2005.

Figure 1. China 50 ETF Tracks the SSE 50 Index

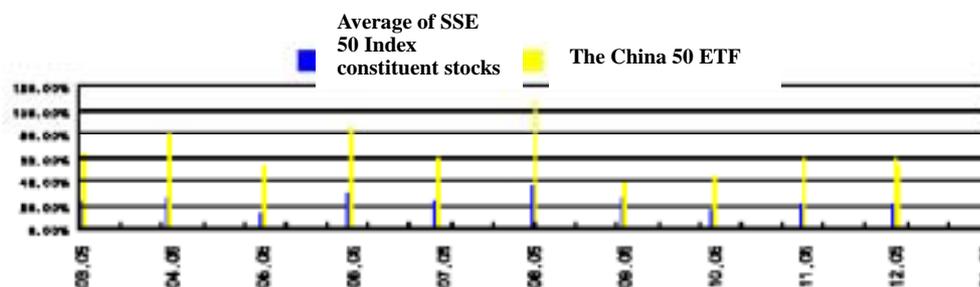
(As of February 23, 2005 to February 28, 2006)



(Data source: [The Tianxing System](#))

From the historical data of over a year, we can see that the average daily turnover rate of the China 50 ETF exceeded 3%, which was far higher than that of constituent stocks of the index it tracks, which represents an active trading of this ETF.

Figure 2. Comparisons of the turnover rate of the China 50 ETF with constituent stocks of the SSE 50 Index



Data source: The Tianxiang System – From March 31, 2005 to January 31, 2006

With more investors' awareness of ETF as a highly efficient investment tool, many investors take advantage of effective investment strategies formed by the China 50 ETF to engage in multiple types of investment activities such as, stock re-investment, arbitrage, short-term investment, long-term investment and asset allocations. The China 50 ETF has proved its potential as the market core product, and characteristics inherent in the ETF product itself has made it an ideal investment tool to garner long-term yields through index investment.

As the manager of the very first ETF in China, ChinaAMC has successively been granted a series of international awards including the "Most Innovative Product" by Asia Asset Management and the 2005 Global ETF Award of the "Most Innovative ETF in Asia Pacific". ChinaAMC, as the ETF expert in China possesses a robust product R&D and innovation capability, and has accumulated valuable experience in developing and operating of the first ETF in mainland China.

Based on the success of the China 50 ETF, ChinaAMC will configure the product line of the ETFs with differentiating asset categories in order to meet different preferences of investors. The China 50 ETF covers the index of blue chips with long-term and stable growth while the China SME ETF covers smaller cap with higher growth and greater volatility. In addition, ChinaAMC also plans to launch the Asia Bond Fund (ABF) China ETF, which will be the category of fixed income.

[Advantages in the China SME ETF]

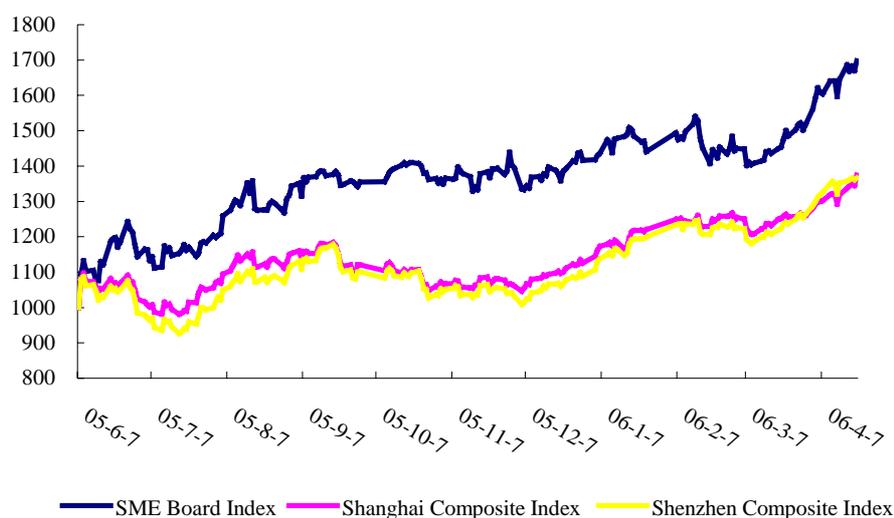
1. High Investment Value

The national economy and capital market in China will witness a rapid growth over the long run while SMEs will be at the forefront of the economic growth. Given the fast revenue growth, strong profitability and lower valuation advantage of the SME Board, one more good choice to allocate assets and increase income has thus been created for investors.

(1) High growth

The rise of the SME Board Index is far higher than that of the main board. From the benchmark date of June 6, 2005 to April 21, 2006, the SME Board Index rose approximately 70% while the Shanghai Composite Index went up 37.4% and Shenzhen Composite Index was up 36.7% only.

Figure 3. Comparison of Historical Movements of the SME Board Index with Shanghai Composite Index and the Shenzhen Composite Index
(June 7, 2005 to April 21, 2006)



(Data source: The Tianxiang System)

By the end of 2005, all the 50 listed companies on the SME Board had been profitable and the corporate growth of the cap was significantly stronger than that of the main board.

Table 1. Comparison of the Financial Indicators of SME Board, Shanghai A-shares and Shenzhen A-shares

	Weighted Average of Main Business Revenue Growth Rates	Weighted Average of Main Business Profit Growth Rates
SME Board Index	34.6%	29.4%
Shanghai A-shares	25.8%	15.7%
Shenzhen A-shares	18.3%	19.6%

Data source: The Tianxiang System – 2005 Annual Report statistics

(2) Strong profitability

Financial indicators of the SME Board's constituent stocks show a relatively strong profitability, and weighted averages of ROE, ROA and EPS are compared favorably with Shanghai A-shares and Shenzhen A-shares.

Table 2. Comparison of the Financial Indicators of SME Board, Shanghai A-shares and Shenzhen A-shares

Financial Indicators	SME Board	Shanghai A-shares	Shenzhen A-shares
Weighted Average ROE (%)	13.35	6.76	4.13
Weighted Average ROA (%)	7.41	3.65	3.02
Weighted Average EPS (RMB)	0.51	0.32	0.27

Data source: The Tianxiang System – 2005 Annual Report statistics

(3) Valuation advantage

SME Board stocks had relatively great advantages in their valuation. As valuation of different enterprises should be made via different methods, for SMEs with fast growth, we should focus more on the PEG indicator of the stock. In other words, consideration should be given to the growth factor of the PE value; the PEG indicator of SME stocks is 0.99, which was far smaller than the average of the PEG value of 3.83 of the main board stocks.

(4) Sharp-cut investment style

The SME Board shows its independent features. The correlation coefficient of SME Board Index yield with yields of other indices falls between 0.6 and 0.7, which was far lower than the correlation coefficients between fluctuations of main board stock indices. The maximum correlation coefficient between volatility of the SME Board Index and other indices is below 0.4, far lower below that between main board stock indices. The smaller the correlation of asset portfolios, the better the features of risk yields will be. Therefore, the SME Board is an ideal choice for asset allocations.

2. Index Investment Diversifying Risks in Individual Stocks

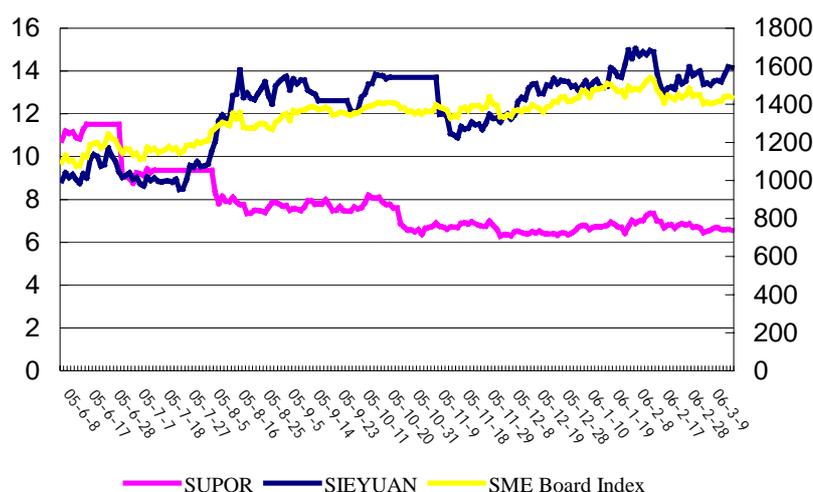
Albeit with high investment value, the SME Board's individual stocks are yet to become mature and hence the difficulty in stock-picking and the needs for taking great risks in individual stocks. In the course of the investment in stocks of the SME Board, only when investors luckily chooses the top 15 constituent stocks with best performance can the yield possibly exceed the return of the SME Board Index.

The indexing investment could just make up for this shortcoming. It will not only make it possible to share the yields from high growth, but also evade great risks needed to be taken from investing in a single stock. The indexing investment of the China SME ETF is designed to be diversified in all stocks in the entire SME Board, which leads to have no active investment risk. And it may also garner the yields from the rise of index at minimum costs with lower risks on the basis of effectively diversifying the relatively high non-systematic risks in SMEs.

As shown in the figure below, during the period from June 8, 2005 to March 17, 2006, the price of

SUPOR (002032), one of the constituent stocks on the SME Board, fell from RMB10.77 to RMB6.56, a decline of approximately 40%. The price of SIEYUAN Electric, another constituent stock, rose from RMB8.87 to RMB14.17, a rise of around 60%. On the other hand, the SME Board Index of the same period rose from 1095.32 to 1435.51, an increase of 31%. In terms of historical movements of the index, fluctuations of the SME Board Index intended to be much more stable than that of individual stocks.

Figure 4. Comparison of Historical Movements of the SME Board Index with Individual Stocks Fluctuations (June 8, 2005 to March 17, 2006)



3. Excellent Benchmark for Indexing

Indexing investment is not suitable for all boards, and only when excellent benchmark indices are available can indexing be effectively made. And the SME Board Index possesses features of excellent benchmark for indexing.

Well representing the market

The SME Board Index, covering all the 50 stocks on this board, is the first full-floating index capable of reflecting completely and accurately the movement and changes of prices on this board. To a certain extent, it reflects how SMEs have been operated in the capital market.

High liquidity of constituent stocks

The trading at the SME Board has been active all the time especially after the non-tradable-shares reform is completed. Market attention and participation have been on the further increase, and its liquidity has been obviously advantageous over the main board. In terms of historical data, from June 7 to December 30, 2005, the daily average transaction volume amounted to RMB 605 million; the daily average transactions of a single stock reached the highest of RMB 28.97 million and the daily average turnover rate of SME stocks was 5.13%; hence, the obvious better liquidity than the main board.

Conspicuous features in risk/return characteristics

Comparing with the main board, the SME Board Index is relatively highly volatile and therefore comes

with high income, which is a good benchmark index for passive investment.

Table 3. Comparison of volatility and yields of the SME Board, Shanghai A-shares and Shenzhen A-shares

	GEM-capSME Board	SHSE-Shanghai A-shares	SZSE-Shenzhen A-shares
Accumulative Rise	52.2%	22.3%	30.9%
Annualized Standard Deviation of Daily Yield	27.4%	18.1%	22.4%

Data source: The Tianxiang System (June 8, 2005 to April 14, 2006)

4. Highly Efficient Investment Tool

Among so many index investment tools, the ETF has become the best tool of this type due to its advantages including easy transaction and low fees, etc. And the China SME ETF possesses outstanding advantages of an ETF:

(1) Convenient transaction

The China SME ETF will be listed at the Shenzhen Stock Exchange and traded as easily as other listed stocks. Meanwhile, investors could create or redeem their ETF units with baskets of stocks.

(2) Grasp the trading price timely

As the China SME ETF will be listed at the Shenzhen Stock Exchange, ETF units could be bought and sold at any time, with high transparency, and continuous real-time quotation will be available during the trading hours at the exchange, enabling investors to check the quote at anytime.

(3) High efficiency in utilizing the fund

Within the same trading day, investors are able to buy in baskets of stocks, create the China SME ETF and sell them at the secondary market. Alternatively, they may buy in the China SME ETF at the secondary market, redeem the baskets of stocks and sell them at the secondary market. Thus greatly enhancing the efficiency in utilizing the funds and securities.

(4) Lower fees

Passive operation makes it possible to have a relatively low operation cost and transaction cost of the fund. The management and custodian fee of the China SME ETF are less than half of the current average fees for existing domestic funds and are also lower than those of index funds with lower fees. The regulations on transaction fees at the secondary market for the China SME ETF are the same with those for closed-end funds. No stamp tax is applicable. For investors who buy in and hold the fund on a long-term basis, the saved fee means more funds for investment and higher yields over the long run. Apart from that, the lower fees in creation and redemption as well as transaction will greatly reduced transaction costs for short-term investors.

Table 4. Fee Comparison of the GEM ETF with Equity funds and Index Funds

Fund Type	Creation Fee	Redemption Fee	Management Fee	Custodian Fee	Secondary Market Cost
Stock Allocation Fund	1.2-1.6%	0.3-1%	1.2-1.5%	0.25%	
Index Fund	0.5-1.5%	0.3-0.5%	0.5-1.3%	0.1-0.25%	
China SME ETF	No more than 0.5% of units subscribed (subscription inside the exchange)	No more than 0.5% of units redeemed (redemption inside the exchange)	0.5%	0.1%	Free of stamp tax and commission no more than 0.3% of transacted sum

Data source: Securities Time, ChinaAMC

(5) Arbitrage mechanism

The China SME ETF has also provided arbitrage opportunities for investors. Investors may participate in arbitrage activities to capture risk free returns whenever the trading price of the China SME ETF in the secondary market deviates from the net asset value of the fund. The existence of the arbitrage mechanism guarantees the rationality in trading price, and it enables trading price of the China SME ETF on the secondary market to be basically maintained consistent with its fund net asset value, which thus protects the interests of investors at the secondary market.

[Overview of the China SME ETF]

1. Product Overview

Table 5. Product Overview of the China SME ETF

Name of Fund	China SME Board Exchange Traded Open-end Index Securities Fund
Type of Fund	Equity Fund
Way of Operation for Fund	Exchange Traded and Open-ended
Unit Par Value	RMB1.00
Price for Subscription	RMB1.00
Dividend Policy	Dividends may be distributed when accumulated returns of the fund exceed 1% of the same period's index returns. Dividend can be distributed twice a year at maximum. If the fund contract is less 3 months old since its validity date, dividend may not be distributed. The ratio of dividend distribution is fixed at no less than 90% of the payable income that is in line with the above-mentioned dividend distribution requirements.
Benchmark Index	SME Board Price Index
Fund Manager	China Asset Management Co., Ltd.
Fund Custodian	China Construction Bank Co., Ltd.
Registration and Clearing Institution	China Securities Depository and Clearing Corporation Limited

2. Fund Investment

(1) Investment Goals

Closely track the benchmark index and seek to minimize the tracking deviation and tracking errors.

(2) Investment Scope

Invest mainly in the constituent stocks and proxy constituent stocks of the underlying index, while enhancing this investment with small quantities of new stocks, bonds and other financial instruments approved by the China Securities Regulatory Commission (CSRC).

(3) Investment Philosophy

Given that the economy and the capital market in China, especially SMEs will witness a long-term and fast growth, indexing investment will garner its average level of returns based on the effectively diversified non-system risks from SMEs at minimized costs. The benchmark index that is well representing the market, of good liquidity and high growth will meet a variety of needs of investors through the Full Replication to minimize tracking deviation and tracking errors.

(4) Investment Strategy

This Fund will adopt full replication method, which is to build the portfolio in complete compliance with the composition and weight of constituent stocks in the benchmark index, and with relevant adjustments accordingly. But under special circumstance (i.e. liquidity is insufficient), which leads to inability to obtain sufficient number of stocks, Fund Manager will make appropriate substitutions

through other reasonable approaches.

(5) Fund Manager

Mr. Fang Jun, Master, has seven years of experience in the fund industry. Mr. Fang joined ChinaAMC in 1999 and first acted as a research analyst covering the commercial and power industry, he then served as the assistant fund manager to three funds: the ChinaAMC Growth Fund, The Xing Hua Fund and the ChinaAMC Return Fund. Mr. Fang is now acting as the Fund Manager for the China 50 ETF.

3. Fund Subscription

Investors may choose to make the cash subscription on exchange, cash subscription on OTC and in-kind subscription for this Fund.

(1) Cash subscription on exchange: Investors may participate in the on-line offering by cash through the distribution outlets designated by the Fund Manager;

- 1) Opening account: Investors must hold Shenzhen A-share security accounts upon the creation of the Fund.
- 2) Subscription limit: The subscription on the exchange should be made in terms of fund units. Individual accounts may subscribe in multiples of 1,000 units and up to 99,999,000 units.
- 3) Investors may submit more than one subscription and accumulating subscription will not be capped.

(2) Cash subscription on OTC: Investors may make cash subscription through Fund Manager or the distribution outlet designated by the Fund Manager.

- 1) For investors holding open-end fund accounts, they may make the OTC subscription by cash through China Construction Bank or the Fund's direct distribution outlets. Subscription is made by the sum and the sum for each subscription must be above RMB1, 000 inclusive.
- 2) For investors holding Shenzhen A-share security accounts, they may make the OTC subscription by cash, and subscription will be made in terms of fund unit and each subscription must be above 100, 000 units inclusive.
- 3) Investors may submit more than one subscription and accumulating subscription will not be capped.

(3) In-kind subscription: Investors may make the subscription by stocks through Fund Manager and its designated distribution outlet.

- 1) Opening account: Investors must hold Shenzhen A-share security accounts upon the creation for the Fund.
- 2) Subscription limit: For in-kind subscription, the number of single stocks must be declared and stocks used for the subscription of the fund must be the constituent stocks or proxy constituent stocks of the SME Index (those stocks published to be taken out of the SME Index must not be used for subscription of this Fund). The minimum number of single stocks declared for the subscription of this Fund will be 1,000 shares and the part exceeding 1,000 shares must be the integer multiple of 100.

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

4) Subject to the abnormal trading volume and volatility of, and other unusual market circumstances, the fund manager reserves the right to both limit the subscription volume, and partially or wholly reject the subscriptions.

4. Listing and Trading

Table 6. Basic Information on the Listing and Transactions

Listing Exchange	Shenzhen Stock Exchange
Trading Code	159902
Referenced Open Price at First Trading Day	Fund NAV of the previous working day
Limits for Price Fluctuation	The fund practices the limits for price rise and fall with maximum of $\pm 10\%$, which is exercised on the Day 1 of the listing
Trading Unit	The quantity of purchase for declaration is 100 shares or the multiple of its integers. The part less than 100 shares may be sold
Minimum Price Fluctuation Unit	RMB 0.001
Block Trade	Block trade is applicable for this fund.

5. Creation and Redemption

(1) Creation and redemption code on primary market: 159902

(2) Creation and redemption on exchange: Investors could submit creation and redemption through the Shenzhen Stock Exchange trading system, using securities portfolios, through their Shenzhen securities accounts.

(3) Creation and redemption on OTC: Investors could submit creation and redemption through the Fund Manager and OTC creation and redemption agents, using cash, through their open-end fund accounts.

Table 7. Comparison of the Creation and Redemption on Exchange with the Creation for Redemption OTC

	Creation and Redemption on Exchange	Creation and Redemption OTC
Account	Shenzhen Securities Account	Open-end Fund Account
Ways	By securities portfolio	By cash
Agent	Agent Securities Companies	The Fund Manager and OTC Agent for Creation and Redemption
Quota Limit	The minimum unit of creation is 50,000 units.	The minimum sum of each creation is RMB1, 000 (creation fee inclusive).
Consideration for Creation/Redemption	Securities Portfolio, cash in lieu, differences in cash sum and other considerations.	Cash

6. Fund Expenses

Table 8. Fund Expenses and Fees

Item	Expenses and Fees	
Management Fee	0.5% of fund net asset value	
Custodian Fee	0.1% of fund net asset value	
Subscription Fee	Subscription Amount	Expense Ratio of Subscription
	Below RMB1 million	1.0%
	Above RMB 1million inclusive – below RMB 5 million	0.8%
	Above RMB 5 million inclusive – below RMB 10 million	0.5%
	Above RMB 10 million inclusive	RMB 500 for each subscription

[High Investment Values of the SME Board]

1. Introduction

The SME Board is designed for small and medium enterprises by the Shenzhen Stock Exchange for the purpose of boosting the capability for independent innovation. The SME market came into shape on June 25, 2004 on which 8 new stocks on this board were listed at the Shenzhen Stock Exchange. Currently, there are 50 stocks on the SME Board, which account for 10% of the listed companies at the Shenzhen Stock Exchange.

The SME Board focuses on hi-tech non-state-owned enterprises along China's southeastern coast with conspicuous advantages of regional economy, transparent shareholding structure and flexible mechanisms. In addition, these companies are also characterized by strong profitability, high growth and therefore are highly worth investing. In terms of asset allocations, the SME Board Index is not much correlated with the main board index and their volatilities do not show significant synergetic effect. Therefore, the incorporation of the SME Board Index into asset allocations will enable investors to well diversify their risks effectively. In terms of the categories for investment, on the other hand, given that the SMEs are of both high growth and high risks, investors investing in a single stock will have to face greater risks; investment in index will, instead, make it possible for them to share the yields from high growth. In light of this, its role in evading investment risks will be shown to a significant extent.

2. High Growth

In terms of the development of stock markets in foreign countries, there exists in general the "Small-cap Effect". In other words, from a longer-term view, under the same risk conditions, investing in small cap stocks may garner a surplus income higher than the market average and large cap stocks. This is especially true during the phase of economic growth and when the market is bullish. During the 76 years from 1926 to 2002, the average yield of the small-cap stocks in US reached 11.7%, which was significantly higher than the average yield of the S&P500 Index. Again, the performance of small-cap stocks in European countries is also outstanding. In 2004, the annual yield of small-cap stocks in Germany reached 68.28%; the annual yield of small-cap stocks in the UK were 39.71% and the annual yield of small-cap stocks in France amounted to 20.60%. The average yield of the European market stocks during the same period was 16.52% only, however. We can see that the characteristics of high risks with high returns in small-cap stocks have aroused investors' interests, and they have become one of the most popular investment categories in the market.

The SME Board in China Shenzhen market has also shown good profitability and growth. Since its inception, especially after the non-tradable-shares reform, the trading at the SME Board has been active all the time, and it has often shown independent market movements. Unlike blue chips focusing on the defense of value, the SME Board will give more emphasis on growth. And high growth and high returns significantly characterize this board. Therefore, market attention and participation have been on the constant rise.

3. Full Floating with Outstanding Advantages

With the non-tradable-shares reform completed across the board, the SME Board is a full floating board, which is the first in China. Based on the data as of March 31, 2006, the total market value of the SME Board increased 19.19% over the period before the reform; the floating market value increased 63.75%. The average stock price rose by 43.15%.

The SME Board is of conspicuous regional advantages. Most of the SMEs are located in the economically developed region along China's southeastern coast. Of the 50 enterprises, 31 are situated in Jiangsu, Zhejiang and Guangdong Provinces, which account for 62%. The economic development along the southeastern region has provided great development space for the growth of SMEs.

4. Clearly Defined Shareholding Structure, Strong Capability for Independent Innovation

The SMEs have clearly defined equity rights with relatively dispersed equities. Normally there is no major shareholder that dominates the company. Also, the ratio of state-owned equities is small in these companies with flexible mechanisms. Shareholders of floating A-shares have a greater say in management, reflecting how the market mechanism is basically operated.

Most of the SMEs are small companies that are the leaders in their own industry differentiations. Of the SME Board listed companies, approximately 90% possess their own independent patented technologies, part of which have been selected the "Key Hi-tech Enterprises" by the State Torch Program and the "National Key Hi-Tech Enterprises" by the Ministry of Science and Technology (MOST); 15 have the background of venture capital investment. With the economic growth structural adjustment under the guidance of the planning and policies in the "Eleventh Five-year Plan" of the State, the SME Board enterprises with a strong sense of innovation and independent core technologies will embrace their greater development in the future.

5. Broad Prospects

The planning in the "Eleventh Five-year Plan" emphasizes the capability in independent hi-tech innovation. The SMEs will meet a good environment for market development. The State has recently somewhat loosened financing policies for SMEs, such as, loans and direct finance, and the SME Board enterprises with high asset yields will be gradually benefited from operations under liabilities.

The fast growth of non-state-owned enterprises will provide large numbers of stocks of good quality for the SME Board. And the full floating SMEs will also lure funds of various kinds to enter the market for business startup investment, venture capital investment and M&A. Therefore, the SME Board will embrace the situation where both supply and demand are on the high side. The fact that the MOST recommended to the Shenzhen Stock Exchange over 2,300 hi-tech companies with strong capability for innovation has in itself reflected the support in policies from the government.

The SME Board with the policy support and various funds will embrace a better tomorrow of fast growth.

[ChinaAMC Profile]

□ Introduction

With the registered capital of RMB138 million and incorporated on April 9, 1998, China Asset Management Co., Ltd (ChinaAMC) is one of the first national fund management companies approved for establishment by CSRC. Headquartered in Beijing, the company has branches and offices in Beijing, Shanghai and Shenzhen. By the end of February 2006, the AUM of the company was over RMB 45 billion covering five closed-end funds - the ChinaAMC Xing Hua Fund, the ChinaAMC Xing He Fund, ChinaAMC Xing Ke Fund, ChinaAMC Xing An Fund and the ChinaAMC Xing Ye Fund as well as seven open-end funds - the ChinaAMC Growth Fund, the ChinaAMC Bond Fund, the ChinaAMC Return Fund, the ChinaAMC Cash Income Fund, the ChinaAMC Large-cap Select Fund and the ChinaAMC Dividend Fund, and the China 50 ETF, together with mandates from National Social Security Fund. ChinaAMC is the fund management company with the largest number of funds, and is also one of the companies with the largest AUM. The company is the only investment management company that has been licensed for managing the Asia Bond Fund , a mandate that manages Central Bank's foreign reserves.

□ Operations and Management

ChinaAMC has established a scientific structure of corporate governance, and it was the first in the industry to introduce the System of Independent Directors. Under the Board of Directors, there are the Committee for Qualifications Evaluation, the Remunerations Committee, and the Auditing Committee. The Auditing Committee is responsible for evaluating and improving the internal control of the company. In addition, at the management level, the company has also established a number of specialized committees such as, the Investment Decisions Committee and the Risk Management Committee. The clearly defined limits of authority and divisions of labor between various departments of the company have formed a rational structure of organization in which they cooperate with one another while mutually issuing restrictions.

□ Investment Management

The principle of investment management for ChinaAMC is research creates value and cautious investment in accordance with the market rules in order to obtain stable and reliable income. In light of this, all decisions on investment in the company must be based on research.

Currently, the Chief Investment Officer Responsibility System under the leadership of the Investment Decision Committee is practiced in ChinaAMC. The Investment Decision Committee is the supreme investment decision authority of the company, which is responsible for asset allocations and decisions on major investment. At the same time, the Chief Investment Officer is responsible on an overall basis for investment, research and trading of the company, and reports to the Investment Decision Committee; Fund Managers are responsible for daily routine investment operation of the funds under their management; and the Central Trading Room is in charge of the centralized execution of all transactions.

Staffed with over 20 in-house research analysts, ChinaAMC has established a professional research team covering sector research, bond research, strategic studies, macro economy research as well as quantitative analysis. In addition, it has also set up cooperative relationship with more than 40 domestic and international investment research institutions including Guotai-Jun'an Securities Research Institute, Shenyin-Wanguo

Securities Research Institute, China International Capital Corporation Ltd.(CICC), Bloomberg and Thomson Financial, all of which form an internationalized, all round, in-depth and real-time investment research platform providing professional services to the clients.

□ Products

ChinaAMC is the fund management company with the largest number of funds under its management in China. From lower risk money market funds to high yield equity funds, the company has initially established a complete product line to meet different preferences of investors, ChinaAMC has also introduced the back load, the fixed sum with regular payment, fund conversion, on-line transactions and many other services.

Figure 5. Standardized Fund Services



□ Achievements

- At the end of 2003, China Merchants Bank's "Sunflower" Finance Report showed that ChinaAMC was the "Most Admired Fund Company";
- In February 2004, the result of the Horizon Research indicated that ChinaAMC was the "Fund Management Company with the Highest Public Awareness and Reputation";
- In April 2004, ChinaAMC was awarded the "Best Fund Management Company" by *Shanghai Securities News*;
- ChinaAMC won the "Best Investor Service Award" sponsored jointly by *The Investors Magazine*, China Galaxy Securities, CITC Securities at the end of 2004.
- In March 2005, ChinaAMC's China 50 ETF was awarded the "Most Innovative Product, China" by Asia Asset Management, a premier financial magazine based in Hong Kong.
- In April 2005, China 50 ETF was awarded the "Most Innovative ETF, Asia-Pacific" by the U.S. based Exchangetradedfunds.com and the UK based International Fund Investment (IFI).
- On May 20, 2005, ChinaAMC won the award of "China Fund House of the Year" by AsianInvestor magazine.
- ChinaAMC won the "Regional Awards/Best Client Servicing Award" in 2006, by Asia Asset Management magazine. ChinaAMC was also Special Mentioned for the China Award of "Best Retail Distribution Strategy".
- In January 2006, ChinaAMC won the "Comprehensive Strength Award" and "Product Innovation Award" from 21st Century Economic Review.
- Morningstar and Money Magazine co-issued the "Award of Most Innovative Investment Philosophy" to ChinaAMC in January 2006. ChinaAMC Cash Income Fund won the award of "Most Popular Money Market Fund".
- ChinaAMC won the "Award of Most Trusted Fund Management Company by Investors" by SINA.COM in January 2006.
- In February 2006, the company was once again honored with the "Most Innovative ETF, Asia Pacific" granted by Exchangetradedfunds.com and IFI;
- In February 2006, the company was granted the "2005 Top Major Funds Award" at the "Best Fund Company of 2005" event organized by homeway.com and the ChinaAMC Bond Fund

was honored with the “2005 Top Ten Star Fund Prize”, and the China 50 ETF was given the “2005 China Fund Outstanding Innovation Prize”; and,

- In April 2006, the company was honored with the “Best Corporate Award for Best Innovation Fund”, selected by Shanghai Securities News.

[Appendix]

Table for the SME Board Index's Constituent Stocks

Table 9. SME Board Index's Constituent Stocks

Code	Security Abbreviation	Total Cap. Stock (RMB)	Floating Cap. (RMB)	Industry
002001	NHU	171,030,000	60,750,000	C43 Chemical raw materials and chemical products manufacturing
002002	JSQH	91,700,000	43,498,550	C49 Plastics Manufacturing
002003	WEIXING	74,783,433	29,400,000	C99 Other manufacturing
002004	HUAPONT PHARM	132,000,000	43,689,979	C81 Pharmaceutical manufacturing
002005	ETI	101,000,000	35,360,000	C76 Electric Machinery and appliances manufacturing
002006	JINGGONG SCIENCE	80,000,000	40,500,000	C73 Special equipment manufacturing
002007	HUALAN BIO	100,500,000	44,870,240	C85 Bio products
002008	HAN'S LASER	160,524,000	54,675,000	C57 Other electronic equipment manufacturing
002009	MIRACLE LOGISTICS	57,554,902	33,250,000	C73 Special equipment manufacturing
002010	ZJ TRANSFAR	120,000,000	43,483,253	C43 Chemical raw materials and chemical products manufacturing
002011	DUN'AN ENVIRONMENTA	71,181,865	36,400,000	C71 Common machinery manufacturing
002012	KAN	194,789,298	72,900,000	C31 Paper making and paper products
002013	APM	60,000,000	31,183,932	C75 Transportation equipment manufacturing
002014	NOVEL	93,400,000	32,760,000	C49 Plastics manufacturing
002015	XIAKE	50,320,000	26,000,000	C11 Textile
002016	WEIER	63,290,367	38,207,409	C73 Special equipment manufacturing
002017	EASTCOMPEACE	90,800,000	33,750,000	C99 Other manufacturing
002018	HUAXING CHEMICAL	65,000,000	28,000,000	C43 Chemical raw materials and chemical products manufacturing
002019	XINFU PHARM	68,250,000	28,270,288	C43 Chemical raw materials and chemical products manufacturing
002020	JINGXIN	67,700,000	24,285,516	C81 Pharmaceutical manufacturing
002021	ZOJE	137,600,000	60,320,000	C73 Special equipment manufacturing
002022	KHB	140,250,000	49,939,200	C85 Bio products
002023	HAITE	117,587,226	49,675,032	F11 Transportation supplementary
002024	SUNING APPLIANCE	335,376,000	112,500,000	H11 Retail
002025	SACO	144,000,000	57,825,000	C51 Electronic components manufacturing

002026	SHANDONG WEIDA	90,000,000	37,500,000	C69 Metallurgical
002027	HEDY	302,335,116	101,768,940	G83 Computer and related equipment manufacturing
002028	SIEYUAN	106,000,000	34,824,300	C76 Electric machinery and appliances manufacturing
002029	SEPTWOLVES	110,500,000	42,246,620	C13 Garments and other fabrics manufacturing
002030	DAJY	83,600,000	28,600,000	C85 Bio products
002031	GREATOO	183,300,000	66,690,000	C73 Special equipment manufacturing
002032	SUPOR	176,020,000	59,660,000	C69 Metallurgical products
002033	LIJIANG TOURISM	99,323,048	33,750,000	K34 Tourism
002034	MIZUDA	81,120,000	35,251,200	C11 Textile
002035	VANTAGE	110,110,000	46,550,000	C69 Metallurgical products
002036	YAK	83,230,000	40,500,000	C11 Textile
002037	JIULIAN DEVELOPMENT	110,000,000	53,198,271	C43 Chemical raw materials and chemical products manufacturing
002038	SL PHARM	82,800,000	30,096,000	C85 Bio products
002039	QIANYUAN POWER	140,256,000	65,990,000	D01 Power, steam, hot water production and supply
002040	NANJING PORT	153,670,000	50,050,000	F11 Transportation supplementary
002041	DENGHAI SEEDS	88,000,000	27,940,000	A01 Agriculture
002042	FEIYA	100,000,000	52,000,000	C11 Textile
002043	DEHUA TB	122,000,000	55,440,000	C21 Wood processing and bamboo, vine, palm and grass products
002044	JIANGSU SANYOU	125,000,000	58,500,000	C13 Garments and other fabrics products
002045	GGEC	100,000,000	39,900,000	C51 Electronic components manufacturing
002046	BEARING-SCI&TECH	65,000,000	32,500,000	C71 Common machinery manufacturing
002047	SHENZHEN GLOBE UNION	224,142,702	73,812,702	C69 Metallurgical manufacturing
002048	NBHX	123,500,000	52,650,000	C75 Transportation equipment manufacturing
002049	JINGYUAN ELECTRONICS	75,500,000	33,750,000	C51 Electronic components manufacturing
002050	SANHUA	113,000,000	39,000,000	C71 Common machinery manufacturing

Data source: Shenzhen Stock Exchange, April 28, 2006