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CSOP ETF SERIES

*(a Hong Kong umbrella unit trust authorized under
Section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong)*

CSOP FTSE China A50 ETF

Stock Codes: 82822 (RMB counter) and 02822 (HKD counter)

ANNOUNCEMENT

Changes in respect of PRC withholding tax provisioning approach on the gross unrealised and realised capital gains derived from trading of China A-Shares of the Sub-Fund

CSOP Asset Management Limited (“**Manager**”) of CSOP FTSE China A50 ETF (“**Sub-Fund**”) hereby announces the following changes with respect to its PRC withholding tax (“**WIT**”) provisioning approach on the gross unrealised and realised capital gains derived from trading of China A-Shares on behalf of the Sub-Fund.

With effect from 17 February 2014 (the “**Effective Date**”),

- no WIT provision will be made on the gross unrealised and realised capital gains derived from trading of China A-Shares, except for those gross capital gains derived from trading of China A-Shares issued by PRC tax resident companies which are “immovable properties-rich companies” (as defined below under the Arrangement between the Mainland of China and the Hong Kong

Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “Arrangement”); and

- a 10% provision for WIT will continue to be made for the gross unrealised and realised capital gains derived by the Sub-Fund from trading of China A-Shares issued by PRC tax resident companies which are immovable properties-rich companies.

The Sub-Fund will reverse on the Effective Date the WIT provision made on the gross unrealised and realised capital gains derived from trading of China A-Shares issued by PRC tax resident companies which are not immovable properties-rich companies.

The Manager, acting in the best interest of Unitholders, assesses the WIT provisioning approach on an on-going basis. Given the fast development of RQFII regime together with the Manager’s accumulated knowledge about WIT, the Manager reassesses the WIT provisioning approach. After careful consideration of the reassessment and having taken and considered independent professional tax advice relating to the Sub-Fund’s eligibility to benefit from the Arrangement, and in accordance with such advice, the Manager holds a view that Sub-Fund is a Hong Kong tax resident for the purpose of the Arrangement and should be able to enjoy certain WIT exemption on gross capital gains derived from the alienation of the shares of non-immovable properties-rich China A-Shares companies under Arrangement.

In this connection, the Manager has, in accordance with the independent professional tax advice, determined that no WIT provision will be made on the gross realized and unrealized capital gains derived from trading of China A-shares, except for those gross capital gains derived from trading of China A-Shares issued by PRC tax resident companies which are immovable properties-rich companies. A 10% provision for WIT will be provided for the gross realized and unrealized capital gains derived by the Sub-Fund from trading of China A-Shares issued by PRC resident companies which are immovable properties-rich companies. The amount of WIT provision will be disclosed in the financial statements of the Sub-Funds.

The above changes will have the effect of increasing the Net Asset Value of the Sub-Fund. Persons who have already transferred or redeemed their Units in the Sub-Fund before the Effective Date will not be entitled or have any right to claim any part of the amount representing the reversal of WIT provision.

Changes to the WIT provisioning approach made on the gross unrealised and realised capital gains derived from trading of China A-Shares

Background

As disclosed in the Prospectus of the Sub-Fund, in the absence of specific rules governing taxes on capital gains derived by QFIIs or RQFIIs from the trading of PRC Securities, the income tax treatment of the Sub-Fund’s investments in China A-Shares are governed by the general tax provisions of the PRC Corporate Income Tax Law. If a foreign investor is a non-tax resident enterprise without permanent establishment in the PRC, a 10% WIT may be imposed on the PRC-sourced capital gains, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties. Before the Effective Date, the Sub-Fund has been making a provision at 10% on its gross realised and unrealised dividend income, interest income and gross capital gains.

The Arrangement

Under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, certain relief is applicable to Hong Kong tax residents. One type of such relief under the Arrangement is that capital gains derived by a Hong Kong tax resident from transfer of shares of a PRC tax resident company would be taxed in the PRC only if:

- 50% or more of the PRC tax resident company's assets are comprised, directly or indirectly, of immovable property situated in the PRC (an "immovable properties-rich company"); or
- The Hong Kong tax resident holds at least 25% of the shares of the PRC tax resident company at any time within the 12 months before the alienation.

Sub-Fund's tax residence

Having taken and considered independent professional advice relating to the Sub-Fund's eligibility to benefit from the Arrangement and in accordance with such advice, the Manager considers that the Sub-Fund is a Hong Kong tax resident for the purpose of the Arrangement and is able to enjoy the exemption on capital gains derived from the alienation of the shares of non-immovable properties-rich China A-Shares companies since the inception of the Sub-Fund. Pursuant to the relevant PRC tax regulations, approval by the relevant PRC tax authority should be obtained before a Hong Kong tax resident can enjoy relief under the Arrangement and Hong Kong Tax Resident Certificate ("HKTRC") issued by the Inland Revenue Department ("IRD") should be submitted to the relevant PRC tax authority for this purpose. As at the date of this Announcement, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the PRC tax authorities enforce the collection of WIT on capital gains and require the Sub-Fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the Sub-Fund.

Change to the Sub-Fund's WIT provisioning approach on the gross unrealised and realised capital gains derived from trading of China A-Shares

The Manager, acting in the best interest of Unitholders, assesses the WIT provisioning approach on an on-going basis. Given the fast development of RQFII regime together with the Manager's accumulated knowledge about WIT, the Manager reassesses the WIT provisioning approach. After careful consideration of the reassessment and having taken and considered independent professional tax advice, and in accordance with such advice, the Manager has determined that, from the Effective Date:

- no WIT provision will be made on the gross unrealised and realised capital gains derived from trading of China A-Shares, except for those gross capital gains derived from trading of China A-Shares issued by PRC tax resident companies which are immovable properties-rich companies;
- a 10% provision for WIT will continue to be made for the gross unrealised and realised capital gains derived by the Sub-Fund from trading of China A-Shares issued by PRC tax resident companies which are immovable properties-rich companies.

After careful consideration of the reassessment of the Manager and having taken and considered the independent professional tax advice, and in accordance with such advice, the Sub-Fund will reverse the WIT provision made on the gross unrealised and realised capital gains derived from trading of China A-Shares issued by PRC tax resident companies which are not immovable properties-rich companies.

With respect to constituent stocks which are issued by immovable properties-rich companies, the Manager will adopt a prudent approach, based on guidance in the PRC tax regulations and the Arrangement and taking and in accordance with the independent professional tax advice, in determining whether the constituent stocks of the FTSE China A50 Index starting from 1 January 2010 (i.e. 36 months prior to the first recorded gross realised capital gains derived from trading of China A-Shares by the Sub-Fund) were immovable properties-rich companies. This methodology adopted by the Manager in identifying whether or not PRC resident companies are immovable properties rich companies has been agreed and accepted by independent tax advisor.

The Manager believes that the change in the Sub-Fund's approach with regard to WIT is in the best interests of the Unitholders.

Trustee confirmation

HSBC Institutional Trust Services (Asia) Limited, the Trustee of the Sub-Fund, has confirmed that it has no objection to the calculation method or the change in the tax provisioning approach applicable to the Sub-Fund, after seeking independent professional tax advice.

Dividend and interest income WIT provisioning approach unchanged

The changes to the Sub-Fund's WIT provision approach only apply to the gross unrealised and realised capital gains derived from trading China A-Shares other than China A-Shares of PRC immovable properties-rich companies. The WIT provision treatment of other types of income of the Sub-Fund, including dividend income and interest income, is not affected by the change to the PRC withholding tax provisioning approach on the gross unrealised and realised capital gains derived from trading of China A-Shares of the Sub-Fund.. Details of such tax provision treatment are disclosed under the "Taxation" section of the Prospectus.

Impact of changes to the WIT provisioning approach to investors

Net Asset Value

The above changes will have the effect of increasing the Net Asset Value of the Sub-Fund. The Net Asset Value of the Sub-Fund starting from the Effective Date will reflect the change in tax provision and the reversal of provision made as described above.

For the purpose of illustration, as at 14 February 2014, the Sub-Fund had a total WIT provision of RMB111,205,198.74, out of which a provision of RMB107,483,154.88 was related to the gross unrealised and realised capital gains from non-immovable properties-rich companies, which amounted to 0.47% of the Net Asset Value as at 14 February 2014. This calculation has been agreed by our auditor. No audit opinion was expressed. For the avoidance of doubt, the reversal of provision on the Effective Date will only be for that amount of the provision in respect of the gross unrealised and realised capital gains from non-immovable properties-rich companies as at the Effective Date.

As at 14 February 2014, 7 companies out of 50 constituent stocks of the Index are determined by the Manager to be immovable properties-rich companies.

Previous Unitholders

As disclosed in the Prospectus, Unitholders who have already redeemed their Units in the Sub-Fund before the Effective Date will not be entitled or have any right to claim any part of the amount representing the reversed WIT provision.

Risks

It should be noted that there are certain uncertainties regarding the change in WIT provisioning approach:

- The Arrangement may be changed in the future and the Sub-Fund may ultimately be required to pay WIT on capital gains.
- As at the date of this Announcement, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the PRC tax authorities enforce the collection of WIT on capital gains and require the Sub-Fund to provide a HKTRC, the Manager will apply for a HKTRC on behalf of the Sub-Fund. Whether the Manager is able to obtain a HKTRC on behalf of the Sub-Fund is subject to prevailing practice of Hong Kong and/or PRC tax authorities. The Sub-Fund may need to apply with the IRD for a HKTRC on an annual basis, which is subject to the assessment of the IRD. There is a risk that the Manager will not be able to obtain a HKTRC on behalf of a Sub-Fund.
- To date, the PRC tax authorities have not sought to enforce WIT collection on capital gains derived by RQFIs such as the Manager for the Sub-Fund. If the PRC tax authorities start to enforce WIT collection on capital gains, the relief under the Arrangement is still subject to the final

approval of the relevant PRC tax authorities and the Manager is not aware of any successful cases for tax treaty capital gain exemption approval for RQFIIIs. Even if the Manager, in accordance with the independent professional tax advice, believes that the Sub-Fund should be eligible for such relief, the PRC tax authorities may ultimately hold a different view.

- Due to the limitation to the availability of the public information in the PRC (e.g. in determining whether ownership of an associate company will constitute an immovable properties-rich investment), the information to be adopted by the PRC tax authorities in assessing immovable properties-rich companies may be different from the information used by the Manager in assessing immovable properties-rich companies which may result in different conclusion by the Manager for some China A-Share companies to those of the PRC tax authorities.

For the above reasons, any WIT provision on capital gains made by the Manager in respect of the Sub-Fund may be less than the Sub-Fund's actual tax liabilities. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively.

As such, it should be noted that the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. Consequently, Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual tax levied by the State Administration of Taxation is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged. Notwithstanding the above change in tax provisioning approach, persons who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investment in the Sub-Fund.

Updated Prospectus

The Prospectus of the Sub-Fund has been updated by way of addendum to reflect the changes described above and the risks related to the changes. The revised Prospectus will be uploaded on the Manager's website at www.csopasset.com/etf and the HKEx's website at www.hkexnews.hk after market closes on the Effective Date.

General

Unless otherwise defined, all capitalised terms shall have the same meaning as that in the Prospectus of the Sub-Fund.

For Further Information

If you have any queries or require further information in relation to any aspect of this Announcement, please contact our Customer Service Hotline at (852) 3406 5688.

By Order of the Board
CSOP Asset Management Limited
Chief Executive Officer
Ding Chen

17 February 2014

As of the date of this Announcement, the board of directors of the Manager comprises 7 Directors namely, Ms. Ding Chen, Mr. Gao Liangyu, Mr. Qin Changkui, Mr. Zhang Gaobo, Mr. Benoit Descourtieux, Mr. Bao Wenge and Mr. Qiu Guolu.