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# ChinaAMC CSI 300 Index ETF

***(the "Sub-Fund")***

*(A sub-fund of ChinaAMC ETF Series, a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong)*

***RMB Counter Stock Code: 83188***
***HKD Counter Stock Code: 03188***

## Announcement –
## Changes in respect of PRC withholding tax provisioning policy of the Sub-Fund

The Manager of the Sub-Fund, China Asset Management (Hong Kong) Limited (the "**Manager**") hereby announces the following changes with respect to its PRC withholding tax ("**WIT**") provisioning policy on behalf of the Sub-Fund.

With effect from 27 January 2014 (the "**Effective Date**"),

- no WIT provision will be made on the unrealised and realised capital gains derived from trading of A-Shares, except for those capital gains derived from trading of A-Shares issued by PRC resident companies which are "land rich companies" (as defined below under "*China-HK Arrangements*"); and

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

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

The above changes are made because the Sub-Fund successfully obtained a Hong Kong Tax Resident Certificate ("**HKTRC**") from the Inland Revenue Department of Hong Kong (the "**IRD**") on 16 October 2013 to evidence its Hong Kong tax resident status for the calendar year 2013. Having taken and considered independent professional tax advice relating to the Sub-Fund's eligibility to benefit from the China-HK Arrangements (as defined below) and acting in accordance with such advice, the Manager considers that the Sub-Fund is able to enjoy certain WIT exemption on capital gains under the China-HK Arrangements since the inception of the Sub-Fund.

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 policy**

*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 A-Shares are governed by the general tax provisions of the PRC CIT 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 realised and unrealised dividend income, interest income and capital gains.

*China-HK Arrangements*

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 "**China-HK Arrangements**"), certain relief is applicable to Hong Kong tax residents. One type of such relief under the China-HK Arrangements is that capital gains derived by a Hong Kong tax resident from transfer of shares of a PRC company would only be taxed in the PRC if:

- More than 50% of the PRC company's assets are comprised, directly or indirectly, of immovable property situated in the PRC (a "**land 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.

Pursuant to the relevant PRC tax regulations, approval by the relevant PRC tax authority should be obtained before a Hong Kong taxpayer can enjoy relief under the China-HK Arrangements, and a HKTRC issued by the IRD should be submitted to the relevant PRC tax authority for this purpose.

*Sub-Fund's tax residence*

The Sub-Fund successfully obtained a HKTRC from the IRD on 16 October 2013 to evidence its Hong Kong tax resident status for the calendar year 2013. Having taken and considered independent professional tax advice relating to the Sub-Fund's eligibility to benefit from the China-HK Arrangements and acting in accordance with such advice, the Manager considers that the Sub-Fund is able to enjoy certain WIT exemption on capital gains under the China-HK Arrangements since the inception of the Sub-Fund. If the PRC tax authorities enforce the collection of WIT on capital gains and require the Sub-Fund to provide a HKTRC for future years in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the Sub-Fund for each subsequent year.

*Change to the Sub-Fund's policy*

Having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager has determined that, from the Effective Date:

- no WIT provision will be made on the unrealised and realised capital gains derived from trading of A-Shares, except for those capital gains derived from trading of A-Shares issued by PRC resident companies which are land rich companies;

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

The Sub-Fund will reverse the WIT provision made on the unrealised and realised capital gains derived from trading of A-Shares issued by PRC resident companies which are not land rich companies. Having taken independent professional tax advice and acting in accordance with such advice, the Manager will adopt a prudent and conservative approach, based on guidance in the PRC tax regulations and the China-HK Arranagements, in determining whether the constituent stocks of the CSI 300 Index starting from 1 January 2010 (i.e. 36 months prior to the first recorded realised capital gains derived from trading of A-Shares by the Sub-Fund) were land rich companies. This methodology adopted by the Manager to assess whether or not PRC resident companies are land rich companies has been agreed and accepted by the Auditor.

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

*Trustee confirmation*

Cititrust 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 policy applicable to the Sub-Fund, after seeking independent professional tax advice.

*Dividend and interest income policy unchanged*

The changes to the Sub-Fund's policy with regard to WIT only apply to the unrealised and realised capital gains derived from trading A-Shares other than A-Shares of PRC land rich companies. The tax provision treatment of other types of income of the Sub-Fund, including dividend income and interest income, is not affected by the obtaining of the HKTRC by 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 policy 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 24 January 2014, the Sub-Fund had a total WIT provision of RMB155,038,867, out of which a provision of RMB146,965,851 was related to the unrealised and realised capital gains from non-land rich companies, which amounted to 1.75% of the Net Asset Value as at 24 January 2014. This calculation has been verified by the Auditor. 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 unrealised and realised capital gains from non-land rich companies as at the Effective Date.

As at 24 January 2014, 43 companies out of 300 constituent stocks of the Index are determined by the Manager to be land 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 policy:

- The China-HK Arrangements may be changed in the future and the Sub-Fund may ultimately be required to pay WIT on capital gains.

- As a HKTRC is issued by the IRD on a per calendar year basis, if required by the PRC tax authorities the Sub-Fund may need to apply with the IRD for HKTRC for other years in future, 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 the Sub-Fund in future if there is a change of the applicable tax rules or prevailing practice in Hong Kong and/or the PRC.

- To date, the PRC tax authorities have not sought to enforce WIT collection on capital gains derived by RQFIIs 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 China-HK Arrangements is still subject to the final approval of the PRC tax authorities. Even if the Manager 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 respect of the market value of land and land use rights), the information to be adopted by the PRC tax authorities in assessing land rich companies may be different from the information used by the Manager in assessing land rich companies which may result in different conclusion by the Manager for some 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 policy, 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 addenda to reflect the changes described above and the risks related to the changes. The revised Prospectus will be uploaded on the Manager's website http://etf.chinaamc.com.hk/HKen/CSI300 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.

*Enquiries*

Investors who have any enquiries regarding the above may contact the Manager at 37th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or our enquiry hotline at (852) 3406 8686 during office hours.

**China Asset Management (Hong Kong) Limited**
**as Manager of ChinaAMC CSI 300 Index ETF**

**Date: 27 January 2014**