



CSOP ETF Series

# CSOP FTSE China A50 ETF

PROSPECTUS

August 2012

**Important - If you are in doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant and other financial adviser for independent financial advice.**

# 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 Code: 82822)**

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## PROSPECTUS

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MANAGER

CSOP Asset Management Limited

LISTING AGENT FOR CSOP FTSE China A50 ETF

Oriental Patron Asia Limited

20 August 2012

The Stock Exchange of Hong Kong Limited (“**SEHK**”), Hong Kong Exchanges and Clearing Limited (“**HKEx**”), Hong Kong Securities Clearing Company Limited (“**HKSCC**”) and the Hong Kong Securities and Futures Commission (“**Commission**”) take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. CSOP ETF Series (“**Trust**”) and its sub-funds set out in Part 2 of this Prospectus, including its initial Sub-Fund, CSOP FTSE China A50 ETF (“**CSOP A50 ETF**”) (collectively referred to as the “**Sub-Funds**”) have been authorised by the Commission pursuant to section 104 of the Securities and Futures Ordinance. Each of the Sub-Funds, including the CSOP A50 ETF is a fund falling within Chapter 8.6 and Appendix I of the Code on Unit Trusts and Mutual Funds (“**Code**”). Authorisation by the Commission is not a recommendation or endorsement of the Trust or any of the Sub-Funds nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the Trust or the Sub-Funds are suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors.

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## **PARTIES**

### **Manager and RQFII Holder**

CSOP Asset Management Limited  
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Central  
Hong Kong

### **Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

### **Adviser for CSOP A50 ETF**

China Southern Fund Management Co. Limited  
33/F, Duty-Free Business Building,  
6 Fuhua 1st Rd, Futian CBD,  
Shenzhen, China 518048

### **Custodian for CSOP A50 ETF**

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

### **PRC Custodian for CSOP A50 ETF**

HSBC Bank (China) Company Limited  
33th Floor, HSBC Building,  
Shanghai ifc, 8 Century Avenue,  
Pudong, Shanghai, China 200120

### **Service Agent**

HK Conversion Agency Services Limited  
2nd Floor, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

### **Listing Agent for CSOP A50 ETF**

Oriental Patron Asia Limited  
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8 Connaught Place  
Central, Hong Kong

### **Legal Adviser to the Manager**

Deacons  
5<sup>th</sup> Floor, Alexandra House  
18 Chater Road  
Central  
Hong Kong

### **Auditors**

PricewaterhouseCoopers  
21/F, Edinburgh Tower  
15 Queen's Road Central  
Hong Kong

### **Directors of the Manager**

Chen Ding  
Liangyu Gao

Changkui Qin  
Gaobo Zhang  
Benoit Descourtieux  
Wenge Bao  
Guolu Qiu

## PRELIMINARY

This Prospectus has been prepared in connection with the offer in Hong Kong of Units in the **Trust** and its Sub-Funds, including its initial sub-fund, CSOP A50 ETF. The Trust is an umbrella unit trust established under Hong Kong law by a trust deed dated 25 July 2012 between CSOP Asset Management Limited (the “**Manager**”) and HSBC Institutional Trust Services (Asia) Limited (the “**Trustee**”).

The Manager accepts full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement misleading. The Manager also confirms that this Prospectus includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK and the Code and the “Overarching Principles” of the Commission Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products for the purposes of giving information with regard to the Units of the Trust and the Sub-Funds. The Prospectus contains the information necessary for investors to be able to make an informed judgment of the investment and meets the disclosure requirements under the Code. Before making any investment decisions, investors should consider their own specific circumstances, including without limitation, their own risk tolerance level, financial circumstances, investment objectives. If in doubt, investors should consult their financial adviser, consult their tax advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable them to acquire Units and as to whether any taxation effects, foreign exchange restrictions or exchange control requirements are applicable and to determine whether any investment in any of the Sub-Funds, is appropriate.

Application has been made to the SEHK for the listing of, and permission to deal in, the Units of the CSOP A50 ETF, and subject to the approval of the application and compliance with the relevant requirements of the HKSCC, Units in the CSOP A50 ETF will be accepted as eligible securities by HKSCC for deposit, clearing and settlement in the Central Clearing and Settlement System (“**CCASS**”) with effect from the date of commencement of dealings in Units on the SEHK or such other date as may be determined by HKSCC. Applications may be made to list Units in other Sub-Funds constituted under the Trust in future on the SEHK. Subject to compliance with the admission requirements of HKSCC and the granting of listing of, and permission to deal in, the Units in other Sub-Funds on the SEHK, the Units in other Sub-Funds will be accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the Units in other Sub-Funds on the SEHK or such other date as may be determined by HKSCC. Settlement of transactions between participants of SEHK is required to take place in CCASS on the second CCASS Settlement Day (as defined in the “**Definitions**” section) after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Prospectus may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized. Distribution of this Prospectus shall not be permitted unless it is accompanied by a copy of the latest Product Key Facts Statement of each of the Sub-Funds, the latest annual report and accounts of the Trust (if any) and, if later, its most recent interim report.

The Trust is not registered as an investment company with the United States Securities and Exchange Commission. Units have not been, and will not be, registered under the United States Securities Act of 1933 or any other United States Federal or State law and accordingly Units are not offered to, and may not be transferred to or acquired by, US persons (including without limitation US citizens and residents as well as business entities organized under United States’ law), except under any relevant exemption.

The Manager shall have the power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units in any Sub-Fund are acquired or held by an Unqualified Person (as defined in the “**Definitions**” section).

Potential applicants for Units in any of the Sub-Funds should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units in such Sub-Fund.

Investors should note that any amendment or addendum to this Prospectus will only be posted on the Manager's website ([www.csopasset.com/etf](http://www.csopasset.com/etf))<sup>1</sup>.

Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of any of the Sub-Funds of the Trust will be achieved. In particular, investors should consider the general risk factors set out in section "**4. General Risk Factors**" of Part 1 of this Prospectus and any specific risk factors relating to a Sub-Fund as set out in Part 2 of this Prospectus, before investing in any of the Sub-Funds.

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<sup>1</sup> The contents of this website and any other websites referred to in this Prospectus have not been reviewed by the Commission and may contain information which is not targeted to Hong Kong investors.

## **DEFINITIONS**

In this Prospectus, unless the context requires otherwise, the following expressions have the meanings set out below.

“**Application**” means, in respect of a Sub-Fund, a Creation Application or a Redemption Application.

“**Application Basket Value**” means the aggregate value of the Index Securities comprising a Basket as fixed by the Manager on the relevant Valuation Day for the purpose of the creation and redemption of Units in an Application Unit size.

“**Application Cancellation Fee**” means the fee payable by a Participating Dealer in respect of cancellation of an Application as set out in the Trust Deed, the rate of which is set out in Part 2 of this Prospectus.

“**Application Unit**” means, in respect of a Sub-Fund, such number of Units of a class or whole multiples thereof as specified in Part 2 of this Prospectus or such other multiple of Units of a class from time to time determined by the Manager, in consultation with the Trustee, and notified to Participating Dealers, either generally or for a particular class or classes of Units.

“**Auditors**” means the auditor or auditors of the Sub-Funds and the Trust from time to time appointed by the Manager with the prior approval of the Trustee pursuant to the provisions of the Trust Deed.

“**Base Currency**” means the currency of account of a Sub-Fund as specified in Part 2 of this Prospectus.

“**Basket**” means, for the purpose of the creation and redemption of Units in an Application Unit size, a portfolio of Index Securities, which seeks to benchmark the Underlying Index by replication strategy provided that such portfolio shall comprise only whole numbers of Index Securities and no fraction or, if the Manager determines, shall comprise only round lots and not odd lots.

“**Business Day**” means, unless the Manager and the Trustee otherwise agree, a day on which (a) (i) the SEHK is open for normal trading; and (ii) the relevant securities market on which the relevant Index Securities are traded is open for normal trading; or (iii) if there are more than one such securities markets, the securities market designated by the Manager is open for normal trading, and (b) the Underlying Index is compiled and published, or such other day or days as the Manager and the Trustee may agree from time to time provided that if on any such day, the period during which the relevant securities market is open for normal trading is reduced as a result of a Number 8 Typhoon Signal, Black Rainstorm warning or other similar event, such day shall not be a Business Day unless the Manager and the Trustee otherwise agree.

“**Cancellation Compensation**” means an amount payable by a Participating Dealer in respect of cancellation of an Application pursuant to the Trust Deed.

“**Cash Component**” means the aggregate Net Asset Value of the Units comprising the Application Unit(s) less the relevant Application Basket Value.

“**CCASS**” means the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors.

“**CCASS Operational Procedures**” means the CCASS Operational Procedures as amended from time to time.

“**CCASS Settlement Day**” means the term “Settlement Day” as defined in the General Rules of CCASS.

“**China**”, “**mainland China**” or the “**PRC**” means the People’s Republic of China excluding Hong Kong, Macau and Taiwan for purpose of this document.



“**Code**” means the Code on Unit Trusts and Mutual Funds issued by the Commission, as may be amended from time to time.

“**Commission**” means the Securities and Futures Commission of Hong Kong or its successors.

“**Connected Person**” in relation to a company, means:

- (a) any person or company beneficially owning, directly or indirectly, twenty per cent (20%) or more of the ordinary share capital of that company or able to exercise, directly or indirectly, twenty per cent (20%) or more of the total votes in that company;
- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a) above;
- (c) any member of the group of which that company forms part; or
- (d) any director or other officer of that company or of any of its Connected Persons as defined in (a), (b) or (c) above.

“**Creation Application**” means an application by a Participating Dealer for the creation of Units of a Sub-Fund in Application Unit size (or whole multiples thereof) in accordance with the relevant procedures set out in the Trust Deed, and the relevant Participation Agreement.

“**CSRC**” means China Securities Regulatory Commission.

“**Custodian**” means such person or person(s) who for the time being appointed to act as custodian of a Sub-Fund, as specified in Part 2 of this Prospectus.

“**Dealing Day**” means, in respect of a Sub-Fund, each Business Day during the continuance of such Sub-Fund or such other day or days as the Manager may from time to time, in consultation with the Trustee, determine either generally or in respect of a particular class or classes of Units.

“**Dealing Deadline**” in relation to any Dealing Day, shall be such time or times as the Manager may from time to time in consultation with the Trustee determine generally or in relation to a particular class or classes of Units or any particular jurisdiction in which Units may from time to time be sold or any particular place for submission of Application(s) by a Participating Dealer, as set out in Part 2 of this Prospectus.

“**Deposited Property**” means, in respect of each Sub-Fund, all the assets (including cash) received or receivable by the Trustee for the time being held or deemed to be held upon the trusts of the Trust Deed for the account of the relevant Sub-Fund excluding (i) the Income Property and (ii) any amount for the time being standing to the credit of the Distribution Account (as defined in the Trust Deed).

“**Duties and Charges**” means, in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage, bank charges, transfer fees, registration fees, transaction levies, all fees, duties and charges as set out in the Operating Guidelines and other duties and charges whether in connection with the constitution of the Deposited Property or the increase or decrease of the Deposited Property or the creation, issue, transfer, cancellation or redemption of Units or the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units, a charge (if any) of such amount or at such rate as is determined by the Manager or the Trustee to be made for the purpose of compensating or reimbursing the Trust for the difference between (a) the prices used when valuing the Securities of the Trust for the purpose of such issue or redemption of Units and (b) (in the case of an issue of Units) the prices which would be used when acquiring the same Securities if they were acquired by the Trust with the amount of cash received by the Trust upon such issue of Units and (in the case of a redemption of Units) the prices which would be used when selling the same Securities if they were sold by the Trust in order to realise the amount of cash required to be paid out of the Trust upon such redemption of Units.

**“Extension Fee”** means any fee payable by a Participating Dealer to the Trustee for its account and benefit on each occasion the Manager grants the request of such Participating Dealer for extended settlement in respect of an Application, as set out in the Operating Guidelines and Part 2 of this Prospectus.

**“HKSCC”** means the Hong Kong Securities Clearing Company Limited or its successors.

**“Hong Kong”** means the Hong Kong Special Administrative Region of the People’s Republic of China.

**“Hong Kong dollar”** or **“HK\$”** or **“HKD”** means the lawful currency for the time being and from time to time of Hong Kong.

**“Income Property”** means, in respect of each Sub-Fund, (a) all interest, dividends and other sums deemed by the Manager (after consulting the Auditors either on a general or case by case basis), to be in the nature of income (including taxation repayments, if any) received or receivable by the Trustee in respect of the Deposited Property of the relevant Sub-Fund (whether in cash or, without limitation, by warrant, cheque, money, credit or otherwise or the proceeds of sale of any Income Property received in a form other than cash); (b) all Cash Component payments received or receivable by the Trustee for the account of the relevant Sub-Fund; and (c) all Cancellation Compensation received or receivable by the Trustee for the account of the relevant Sub-Fund; (d) all interest and other sums received or receivable by the Trustee in respect of (a), (b) or (c) of this definition, but excluding (i) the Deposited Property of the relevant Sub-Fund; (ii) any amount for the time being standing to the credit of the Distribution Account (as defined in the Trust Deed) for the account of the relevant Sub-Fund or previously distributed to Unitholders; (iii) gains for the account of the relevant Sub-Fund arising from the realisation of Securities; and (iv) any sums applied towards payment of the fees, costs and expenses payable by the Trust from the Income Property of the relevant Sub-Fund.

**“Index Provider”** means, in respect of each Sub-Fund, the person responsible for compiling the Underlying Index against which the relevant Sub-Fund benchmarks its investments and who holds the right to licence the use of such Underlying Index to the relevant Sub-Fund.

**“Index Securities”** means (i) the constituent Securities of the relevant Underlying Index; (ii) such other Securities the Index Provider has publicly announced shall form part of the Underlying Index in the future but are currently not constituent Securities of the relevant Underlying Index.

**“Initial Issue Date”** means, in respect of a Sub-Fund, the date of the first issue of Units relating to the Sub-Fund as set out in Part 2 of this Prospectus.

**“Initial Offer Period”** means, in respect of a class of Units, such period as may be determined by the Manager for the purpose of making an initial offer of Units of such class as set out in Part 2 of this Prospectus.

**“Insolvency Event”** occurs in relation to a person where (i) an order has been made or an effective resolution passed for the liquidation or bankruptcy of the person; (ii) a receiver or similar officer has been appointed in respect of the person or of any of the person’s assets or the person becomes subject to an administration order, (iii) the person enters into an arrangement with one or more of its creditors or is deemed to be unable to pay its debts, (iv) the person ceases or threatens to cease to carry on its business or substantially the whole of its business or makes or threatens to make any material alteration to the nature of its business, or (v) the Manager in good faith believes that any of the above is likely to occur.

**“Issue Price”** means, in respect of each Sub-Fund, the issue price per Unit of a particular class during the Initial Offer Period as determined by the Manager in respect of such class of Units and thereafter the issue price per Unit calculated pursuant to the Trust Deed at which Units are from time to time issued or to be issued, each as set out in Part 2 of this Prospectus.

**“Listing Agent”** means, in respect of a Sub-Fund, such entity appointed by the Manager as the listing agent for such Sub-Fund.

**“Listing Date”** means the date on which Units are listed on the SEHK.

**“Manager”** means CSOP Asset Management Limited or any other person (or persons) who for the time being is duly appointed as manager (or managers) of the Trust and accepted by the Commission as qualified to act as such for the purposes of the Code.

**“Net Asset Value”** or **“NAV”** means the net asset value of a Sub-Fund or, as the context may require, of a Unit calculated pursuant to the Trust Deed.

**“Operating Guidelines”** means, in respect of a Sub-Fund, the operating guidelines governing the Participating Dealers, including without limitation, the procedures for creation and redemption of Units of such Sub-Fund, as amended from time to time by the Manager with the approval of the Trustee and in accordance with the terms of the relevant Participation Agreement.

**“Participating Dealer”** means, in respect of a Sub-Fund, a broker or dealer (licensed for Type 1 regulated activity under the Securities and Futures Ordinance) which has entered into a Participation Agreement.

**“Participation Agreement”** means an agreement entered into between the Trustee, the Manager and a Participating Dealer, setting out, amongst other things, the arrangements in respect of Applications by such Participating Dealer, as may be amended from time to time. References to the Participation Agreement shall, where appropriate, mean the Participation Agreement, read together with the Operating Guidelines.

**“Primary Market Investor”** means an investor who makes a request to a Participating Dealer or to a stockbroker who has opened an account with a Participating Dealer to effect an Application on his behalf.

**“QFII”** means a qualified foreign institutional investor approved pursuant to the relevant PRC laws and regulations, as may be promulgated and/or amended from time to time.

**“Redemption Application”** means, in respect of a Sub-Fund, an application by a Participating Dealer for the redemption of Units in Application Unit size (or whole multiples thereof) in accordance with the relevant procedures set out in the Trust Deed and the relevant Participation Agreement.

**“Redemption Price”** means, in respect of a Unit of each Sub-Fund, the redemption price per Unit of a particular class calculated in accordance with the Trust Deed at which Units are from time to time redeemed, as set out in Part 2 of this Prospectus.

**“Register”** means, in respect of each Sub-Fund, the register of Unitholders of that Sub-Fund to be kept pursuant to the Trust Deed.

**“Registrar”** means, such person as may from time to time be appointed by the Trustee and acceptable to the Manager, to maintain the Register and in default of such appointment shall mean the Trustee.

**“RMB”** or **“Renminbi”** means renminbi, the currency of the PRC.

**“RQFII”** or **“RQFII Holder”** means a Renminbi qualified foreign institutional investor approved pursuant to the relevant PRC laws and regulations, as may be promulgated and/or amended from time to time.

**“SAFE”** means the State Administration of Foreign Exchange of the PRC.

**“Securities”** has the meaning given to such term in Section 1 of Part I of Schedule 1 of the Securities and Futures Ordinance.

**“SEHK”** means The Stock Exchange of Hong Kong Limited or its successors.

**“Secondary Market Investor”** means an investor who purchases and sells Units in the secondary market on the SEHK.

**“Securities and Futures Ordinance”** means the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

**“Service Agent”** means HK Conversion Agency Services Limited or such other person as may from time to time be appointed to act as service agent in relation to a Sub-Fund.

**“Settlement Day”** means the Business Day which is two Business Days after the relevant Dealing Day (or such other Business Day after the relevant Dealing Day as permitted pursuant to the Operating Guidelines) or such other number of Business Days after the relevant Dealing Day as the Manager, in consultation with the Trustee, may from time to time determine and notify to the Participating Dealers, either generally or for a particular class or classes of Units.

**“Sub-Fund”** means a separate trust fund with a segregated pool of assets and liabilities established under the Trust, including the initial Sub-Fund, CSOP A50 ETF, specific details of which are set out in Part 2 of this Prospectus.

**“Transaction Fee”** means the fee which may at the discretion of the Trustee be charged for the account and benefit of the Trustee to each Participating Dealer under the Trust Deed, the maximum level of which shall be determined by the Trustee with the consent of the Manager from time to time and set out in Part 2 of this Prospectus.

**“Trust”** means the unit trust constituted by the Trust Deed and to be called CSOP ETF Series or such other name as the Trustee and the Manager may from time to time determine.

**“Trust Deed”** means the trust deed dated 25 July 2012 between the Manager and the Trustee, as amended, modified or supplemented from time to time.

**“Trustee”** means HSBC Institutional Trust Services (Asia) Limited or such other person (or persons) who for the time being is duly appointed to be trustee (or trustees) of the Trust.

**“Underlying Index”** means the index against which the relevant Sub-Fund is benchmarked.

**“Unit”** means such number of undivided shares or such fraction of an undivided share of a Sub-Fund to which a Unit relates as is represented by a Unit of the relevant class and, except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.

**“Unitholder”** means the person for the time being entered on the Register as the holder of a Unit or Units including, where the context so admits, persons jointly so registered.

**“US dollar”** or **“US\$”** means the lawful currency for the time being and from time to time of the United States of America.

**“Unqualified Person”** means:

- (a) a person who by virtue of any law or requirement of any country or governmental authority is not qualified to hold a Unit or who would be in breach of any such law or regulation in acquiring or holding a Unit or if, in the opinion of the Manager, the holding of a Unit by such person might result in the Trust incurring any liability to taxation or suffering a pecuniary disadvantage which the Trust might not otherwise have incurred or suffered, or might result in the Trust, the Manager or the Trustee or any of their Connected Persons being exposed to any liability, penalty or regulatory action; or
- (b) any person if the holding of a Unit by such person might, due to any circumstances whether directly affecting such person and whether relating to such person alone or to any other person in conjunction therewith (whether such persons are connected or not), in the opinion of the Manager, result in the Trust incurring any liability to taxation or suffering a pecuniary disadvantage which the Trust might not otherwise have incurred or suffered, or in the Trust, the Manager or the Trustee or any of their Connected Persons being exposed to any liability, penalty or regulatory action.

**“Valuation Day”** means each Business Day on which the Net Asset Value of a Sub-Fund and/or the Net Asset Value of a Unit falls to be calculated and in relation to each Dealing Day of any class or classes of Units means either such Dealing Day or such Business Day as the Manager may from time to time determine in its absolute discretion (in consultation with the Trustee). At least one calendar month’s prior notice shall be given to the Unitholders of the relevant class or classes of Units before any change in the Manager’s determination on the Valuation Day shall become effective.

**“Valuation Point”** means, in respect of a Sub-Fund, the official closing of trading on: (i) the securities market on which the Index Securities are listed; or (ii) the commodities market on which any commodities held by a Sub-Fund (if any) are traded, on each Valuation Day, and in case there are more than one such securities or commodities markets, the official close of trading on the last relevant securities or commodities market to close, or such other time or times as determined by the Manager, in consultation with the Trustee, from time to time provided that there shall always be a Valuation Point on each Valuation Day other than where there is a suspension of determination of the Net Asset Value of the relevant Sub-Fund pursuant to the provisions of the Trust Deed.

**PART 1**

**GENERAL INFORMATION RELATING TO THE TRUST**

## **PART 1 - GENERAL INFORMATION RELATING TO THE TRUST**

Part 1 of this Prospectus contains general information about the Trust and its Sub-Funds, (including the CSOP A50 ETF) while Part 2 of this Prospectus sets out additional details specific to each Sub-Fund (including the CSOP A50 ETF) (such as additional terms, conditions and restrictions applicable to the relevant Sub-Fund). Investors should read both Parts of the Prospectus before investing in any of the Sub-Fund. In case of any inconsistency between Part 1 and Part 2, the information in Part 2 shall prevail.

### **1. THE TRUST**

The Trust is an umbrella unit trust constituted by way of a trust deed dated 25 July 2012 between CSOP Asset Management Limited as Manager and HSBC Institutional Trust Services (Asia) Limited as Trustee. The terms of the Trust Deed are governed by the laws of Hong Kong.

The Trust has been established initially with one Sub-Fund, namely, the CSOP A50 ETF. Specific details of each Sub-Fund of the Trust, including the CSOP A50 ETF are set out in Part 2 of this Prospectus. Each of the Sub-Funds, including the CSOP A50 ETF is a fund falling within Chapter 8.6 and Appendix I of the Code.

The Manager may create further Sub-Funds in the future.

Multiple classes of Units may be issued in respect of each Sub-Fund and the Manager may create additional classes of Units for any Sub-Fund in its sole discretion in the future. All assets and liabilities attributable to each Sub-Fund shall be segregated from the assets and liabilities of any other Sub-Funds, and shall not be used for the purpose of, or borne by the assets of, any other Sub-Fund (as the case may be).

### **2. KEY OPERATORS AND SERVICE PROVIDERS**

#### **2.1 Manager**

The Manager of the Trust and its Sub-Funds is CSOP Asset Management Limited.

The Manager was established in January 2008 and is licensed to carry on Types 4 (Advising on Securities) and 9 (Asset Management) regulated activities under Part V of the Securities and Futures Ordinance.

The Manager, a subsidiary of China Southern Fund Management Co. Limited, is the first Hong Kong subsidiary set up by mainland Chinese fund houses to carry out asset management and securities advisory activities in Hong Kong.

The Manager is dedicated to serving investors as a gateway for investment between China and the rest of the world. For inbound investment, the Manager boasting local expertise makes the ideal adviser or partner of international investors. For outbound investment, it is keen to introduce suitable overseas investment opportunities to domestic Chinese institutional and retail investors. The Manager provides discretionary management services and advisory services to both institutional investors and investment funds.

The Manager undertakes the management of the assets of the Trust. The Manager may appoint investment adviser(s) to provide investment advice to the Manager in relation to any Sub-Fund. Details of investment advisers appointed in relation to a Sub-Fund (if any) and their remuneration will be stated in Part 2 of this Prospectus.

#### **2.1.1 Directors of the Manager**

The directors of the Manager are Chen Ding, Liangyu Gao, Changkui Qin, Gaobo Zhang, Benoit Descourtieux, Wenge Bao and Guolu Qiu.

### **Chen Ding**

Ms. Ding joined CSOP Asset Management Limited in 2008 and is the Chief Executive Officer and Chief Investment Officer, overseeing the overall business of the Company. Ms. Ding is also an Assistant General Manager of China Southern Fund Management Co. Ltd. where she is accountable for international strategic planning, fund product development and relationship management with various distribution channels and industry regulators of China Southern Fund Management Co. Ltd.

Prior to joining China Southern Fund Management Co. Ltd., Ms. Ding served from 2001 to 2003 as an Associate General Manager of China Merchants Securities Co. Ltd where she assumed key roles in building solid management infrastructure and repositioning the asset management business of China Merchants Securities Co. Ltd.

Ms. Ding holds a Master's Degree in Business Administration from San Francisco State University in the United States.

### **Liangyu Gao**

Mr. Gao is the Chief Executive Officer of China Southern Fund Management Co. Ltd. where he has overall responsibility for its business. He joined CSOP Asset Management Limited in 2008.

Prior to joining China Southern Fund Management Co. Ltd., Mr. Gao served as Deputy Director of Department of Public Offering Supervision of the China Securities Regulatory Commission.

Mr. Gao holds a Master's Degree in Economics from the Graduate School of the People's Bank of China and is an economist.

### **Changkui Qin**

Mr. Qin is the Supervision Officer of China Southern Fund Management Co. Ltd. where he is responsible for supervising its compliance functions to ensure that it complies with applicable legal and regulatory requirements. He joined CSOP Asset Management Limited in 2008.

Prior to joining China Southern Fund Management Co. Ltd., Mr. Qin worked for Huatai Securities Co. Ltd where he served as the Deputy General Manager and the General Manager of Business Department.

Mr. Qin holds a Master's Degree in Business Administration from China Europe International Business School in China.

### **Gaobo Zhang**

Mr. Zhang is a founding partner and the Chief Executive Officer of Oriental Patron Financial Group and is responsible for formulating the investment strategies, monitoring the investment performance and approving investment decisions. Mr. Zhang was appointed as an executive director and the Chief Executive Officer of OP Financial Investments Limited, a company listed on the Hong Kong Stock Exchange, in February 2003. He joined CSOP Asset Management Limited in 2008.

From February 1988 to February 1991, Mr. Zhang was a deputy chief of the Policy Division of Hainan Provincial Government. From 1991 to 1993, Mr. Zhang was deputy chief of Financial Markets Administration Committee of the People's Bank of China Hainan Branch. He was chairman of Hainan Stock Exchange Centre from 1992 to 1994. Mr. Zhang is also an independent non-executive director of Beijing Enterprises Water Group Limited, a company listed on the Hong Kong Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange.



Mr. Zhang obtained a Bachelor's degree in Science from Henan University in China in 1985 and later graduated from the Peking University in China with a Master's degree in Economics in 1988.

### **Benoit Descourtieux**

Mr. Descourtieux is Chief Investment Officer of OP Financial Investments Limited and has overall responsibility for the investment management of Oriental Patron Financial Group and its associates. He has been working in asset management industry since 1986 and has resided in Asia since 1987. Mr. Descourtieux is a founder and principal at OP Investment Management Limited (formerly known as OP Calypso Capital Limited) ("OPIM"), an alternative independent investment manager established in Hong Kong in 2003. He joined CSOP Asset Management Limited in 2008.

Before setting up OPIM, Mr. Descourtieux was President and the Chief Executive Officer for Lombard Odier (Asia) Limited from 1999 to July 2003 acting as office head and Chief Investment Officer.

Prior to that he was from 1997 to 1999 an Associate Director at Indocam Asset Management, the Asian investment arm of Credit Agricole Asset Management, managing equity, fixed income and balanced products with both absolute return and benchmark focus.

### **Wenge Bao**

Mr. Bao is an Assistant General Manager of China Southern Fund Management Co. Ltd. where he is responsible for supervising its operation and finance issues.

Prior to joining China Southern Fund Management Co. Ltd., Mr. Bao served as an Assistant General Manager of the investment banking department and finance planning department in China Southern Securities Co., Ltd. He joined CSOP Asset Management Limited in 2010.

Mr. Bao holds a Master's Degree from the Graduate School of the Research Institute for Fiscal Science, Ministry of Finance of PRC.

### **Guolu Qiu**

Mr. Qiu is the Chief Investment Officer of China Southern Fund Management Co. Ltd. where he oversees the overall research and investments of the company. He joined CSOP Asset Management Limited in 2010.

Previously, Mr. Qiu was Portfolio Manager at Plinthos Capital, Partner at Altair Navigator Management, and Partner at Wedge Capital Management.

Mr. Qiu holds the Chartered Financial Analyst designation and a Master's degree in Economics from Tufts University and a Master's degree in Finance from University of Rochester.

## **2.2 Listing Agent**

The details of the Listing Agent appointed in respect of a Sub-Fund are set out in Part 2 of this Prospectus.

## **2.3 Trustee and Registrar**

The Trustee of the Trust and the Sub-Funds (including the CSOP A50 ETF) is HSBC Institutional Trust Services (Asia) Limited.

The Trustee is a registered trust company under the Trustee Ordinance, Chapter 29 of the Laws of Hong Kong and approved by the Mandatory Provident Fund Schemes Authority as trustee of registered MPF schemes under the Mandatory Provident Fund Schemes Ordinance.

HSBC Institutional Trust Services (Asia) Limited is an indirect wholly-owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

The Trustee will also act as the Registrar of the Trust and each Sub-Fund.

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Trust, subject to the provisions of the Trust Deed.

The Trustee may, however, appoint any person or persons (including a Connected Person of the Trustee) to be custodian of the assets of any Sub-Fund. The Trustee is required to (a) exercise reasonable care and diligence in the selection, appointment and monitoring of such persons and, (b) be satisfied that such persons retained remain suitably qualified and competent to provide the relevant custodial services to the Sub-Funds. The Trustee shall be responsible for the acts and omissions of any custodian which is a Connected Person of the Trustee (including the Custodian and the PRC Custodian which is appointed by the Custodian), as if the same were the acts or omissions of the Trustee, provided however that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any custodian which is not a Connected Person of the Trustee.

The Trustee shall not be liable for: (A) any act, omission, insolvency, liquidation or bankruptcy of (1) Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised or central depositories or clearing system which may from time to time be approved by the Trustee and the Manager, and (2) any such persons not being Connected Persons appointed by the Trustee as custodians of certain assets of any Sub-Fund; or (B) the custody or control of any investments, assets or other property which is under the custody or held by or on behalf of a lender in respect of any borrowing made by the Trustee for the purposes of the Trust or any Sub-Fund.

In no circumstances shall the Trustee be liable for losses in respect of investments and other property or assets forming part of the assets of the Trust or any Sub-Fund not registered in the name of or not deposited with or not held to the order of the Trustee or its delegate or nominee.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or the relevant Sub-Fund from and against any and all actions, proceedings, liabilities, costs, claims, damages, expenses, including all reasonable legal, professional and other similar expenses (other than those resulting from the fraud, negligence or wilful default on the part of the Trustee) which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with the Trust and/or the relevant Sub-Fund. Subject to the applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of fraud, negligence or wilful default on the part of the Trustee, be liable for any losses, costs or damage to the Trust, any Sub-Fund or any Unitholder.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment. The Trustee has no responsibility or authority to make investment decisions, or render investment advice with respect to the Trust or any Sub-Fund, which is the sole responsibility of the Manager.

The Trustee will not participate in transactions or activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control of the US Department of the Treasury. The OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent "prohibited transactions," which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general license for certain categories of transactions, or by specific licenses issued on a case-by-case basis.

HSBC Group has adopted a policy of compliance with the sanctions issued by OFAC. As part of its policy, the Trustee may request for additional information if deemed necessary.

The Trustee will remain as the trustee of the Trust until the Trustee retires or is removed. The circumstances under which the Trustee may retire or be removed are set out in the Trust Deed. Where any Sub-Fund is authorised pursuant to section 104 of the Securities and Future Ordinance, any change in the Trustee is subject to the Commission's prior approval and the Trustee will remain as the trustee of the Trust until a new trustee is appointed in accordance with the provisions set out in the Trust Deed. Unitholders will be duly notified of any such changes in accordance with the requirements prescribed by the Commission.

The Trustee will be entitled to the fees described in the section headed "**12. Fees and Charges**" under the heading "**12.2 Trustee's and Registrar's Fee**" below and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has the sole responsibility for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee (including its delegates) are not responsible for and have no liability for any investment decision made by the Manager. Except as expressly stated in this Prospectus, the Trust Deed and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be directly or indirectly involved in the business affairs, organisation, sponsorship or investment management of the Trust or any Sub-Fund. Also, none of the Trustee, its employees, service providers or agents is responsible for the preparation or issue of this Prospectus, and does not accept responsibility for any information contained in this Prospectus, other than the descriptions under this section "**2.3 Trustee and Registrar**".

#### **2.4 Custodian**

The details of the Custodian of a Sub-Fund, if appointed, are set out in Part 2 of this Prospectus.

#### **2.5 Service Agent**

HK Conversion Agency Services Limited will act as Service Agent under the terms of the service agreement entered into among the Manager, the Trustee, the Service Agent, HKSCC, the Registrar and the relevant Participating Dealer ("**Service Agreement**"). The Service Agent will perform, through HKSCC, certain of its services in connection with the creation and redemption of Units in a Sub-Fund (including the CSOP A50 ETF).

#### **2.6 Auditors**

The auditors of the Trust and the Sub-Funds (including the CSOP A50 ETF) are PricewaterhouseCoopers.

#### **2.7 Participating Dealers**

The role of the Participating Dealers is to apply to create and redeem Units in a Sub-Fund from time to time in accordance with the terms of the relevant Participation Agreement.

The Manager has the right to appoint the Participating Dealers for a Sub-Fund. The criteria for the eligibility and selection of Participating Dealers by the Manager is as follows: (i) the Participating Dealer must be licensed for at least Type 1 regulated activity pursuant to the Securities and Futures Ordinance with a business presence in Hong Kong; (ii) the Participating Dealer must have entered into a Participating Agreement with the Manager and the Trustee; (iii) the Participating Dealer must be acceptable to the Manager; and (iv) the Participating Dealer must be a participant in CCASS.

The list of Participating Dealers in respect of each Sub-Fund is available on [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup>. The Participating Dealers are not responsible for the preparation of

this Prospectus and shall not be held liable to any person for any information disclosed in this Prospectus.

## **2.8 Market Makers**

A market maker is a broker or a dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market on the SEHK. A market maker's obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for Units on the SEHK. Market makers accordingly facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required in accordance with the market making requirements of the SEHK. Subject to applicable regulatory requirements, the Manager intends to ensure that there is at least one market maker for each Sub-Fund to facilitate efficient trading. If the SEHK withdraws its permit to the existing market maker(s), the Manager will endeavour to ensure that there is at least one other market maker to facilitate the efficient trading of Units. The list of market makers in respect of each Sub-Fund is available on [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup> and from time to time will be displayed on [www.hkex.com.hk](http://www.hkex.com.hk).

## **3. INVESTMENT CONSIDERATIONS**

The investment objective of each Sub-Fund (including the CSOP A50 ETF) is to provide investment results that, before fees and expenses, closely correspond to the performance of the Underlying Index to that Sub-Fund.

An Underlying Index comprises a group of Index Securities which an Index Provider selects as being representative of a market, market segment, specific industry sector or other appropriate benchmark. The Index Provider determines the relative weightings of the Index Securities in the relevant Underlying Index and publishes information regarding the market value of such Underlying Index.

The investment objective and strategy specific to each Sub-Fund (including the CSOP A50 ETF), as well as other important details, are set out in Part 2 of this Prospectus.

## **4. GENERAL RISK FACTORS**

Investments involve risks. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of each Sub-Fund and the income from them may go down as well as up and an investor may not get back part or all of the amount they invest.

The performance of each Sub-Fund will be subject to a number of risks, including those risk factors set out below. Some or all of the risk factors may adversely affect a Sub-Fund's Net Asset Value, yield, total return and/or its ability to achieve its investment objective. There is no assurance that a Sub-Fund will achieve its investment objective. The following general risk factors apply to each Sub-Fund unless stated otherwise.

**Before investing in any of the Sub-Funds, investors should carefully consider the general risk factors set out in this section and any specific risk factors relating to a Sub-Fund as set out in Part 2 of this Prospectus.**

### **4.1 Risk Factors relating to China**

China market risk. A Sub-Fund may invest in China. Investing in the China market is subject to the risks of investing in emerging markets generally and the risks specific to the China market which involves a greater risk of loss than investment in more developed countries due to higher economic, political, social and regulatory uncertainty and risks linked to volatility and market liquidity.

Since 1978, the PRC government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the

Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. Any significant change in PRC's political, social or economic policies may have a negative impact on investments in the China market.

Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency.

Investments in equity interests of Chinese companies may be made through China A-Shares, B-Shares (i.e. shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors) and H-Shares (i.e. shares issued by companies incorporated in the PRC and listed on the Stock Exchange of Hong Kong and traded in Hong Kong dollars). The PRC securities market has in the past experienced substantial price volatility, and there is no assurance that such volatility will not occur in future.

Investment in RMB denominated bonds may be made in or outside the PRC. As the number of these securities and their combined total market value are relatively small compared to more developed markets, investments in these securities may be subject to increased price volatility and lower liquidity.

Investors should also be aware that changes in the PRC taxation legislation could affect the amount of income which may be derived, and the amount of capital returned, from the investments of the relevant Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities.

*Foreign exchange control risk.* The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. Such control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in the PRC. Insofar as a Sub-Fund's assets are invested in the PRC, it will be subject to the risk of the PRC government's imposition of restrictions on the repatriation of funds or other assets out of the country, limiting the ability of the relevant Sub-Fund to satisfy payments to investors.

*Renminbi exchange risk.* Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. In particular, there is no guarantee that the value of Renminbi against the investors' base currencies (for example HKD) will not depreciate. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the relevant Sub-Fund. Investors whose base currency is not the Renminbi may be adversely affected if the Renminbi depreciates against the base currency of holding of the investors in that such investors' investments may be worth less when they exchange Renminbi back to their base currency.

Further, the PRC government's imposition of restrictions on the repatriation of Renminbi out of China may limit the depth of the Renminbi market in Hong Kong and reduce the liquidity of the relevant Sub-Fund. Any delay in repatriation of Renminbi may result in delay in payment of redemption proceeds to the redeeming Unitholders. The Chinese government's policies on exchange control and repatriation restrictions are subject to change, and the Sub-Fund's or the investors' position may be adversely affected.

PRC tax considerations. By investing in securities issued by tax residents in the PRC (including without limitation China A-Shares and bonds) ("**PRC Securities**"), a Sub-Fund may be subject to withholding and other taxes imposed in the PRC.

(a) Corporate Income Tax ("CIT"):

If the Trust or the relevant Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to PRC CIT at 25% on its worldwide taxable income. If the Trust or the relevant Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business ("**PE**") in the PRC, the profits attributable to that PE would be subject to CIT at 25%.

The Manager intends to manage and operate the Trust and the relevant Sub-Fund in such a manner that the Trust and the relevant Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with a PE in the PRC for CIT purposes, although this cannot be guaranteed.

(i) *Interests*

Interests derived from government bonds issued by the in-charge Finance Bureau of the State Council shall be exempt from PRC income tax under the CIT law.

Unless a specific exemption / reduction is applicable, for recipients that are non-tax residents without a PE in the PRC under the CIT law, a withholding income tax ("**WIT**") is levied on the payment of interests on debt instruments issued by PRC tax residents, including bonds issued by enterprises established within mainland China. The general WIT rate applicable is 10%.

Under the Arrangement between the Mainland 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**"), if a Hong Kong tax resident derives interest income from the PRC, the WIT rate can be reduced to 7% provided that the Hong Kong tax resident is the beneficial owner of the interest income under the Arrangement, subject to the approval of the PRC tax authorities. However, there are still uncertainties as to how the PRC tax authorities will assess the beneficial ownership issue for investment fund cases, it is uncertain whether the relevant Sub-Fund can obtain approval from the tax authorities for this preferential rate. If the relevant approval is not obtained, the general rate of 10% will be applicable to the relevant Sub-Fund.

(ii) *Dividends*

Dividends derived from holding PRC Securities by a non-tax resident recipient from PRC tax residents are subject to the PRC WIT and the general WIT rate applicable is 10%.

(iii) *Capital gains*

Specific rules governing taxes on capital gains derived by QFIIs or RQFIIs from the trading of PRC Securities (including China A-Shares) have yet to be announced. It is possible that the relevant tax authorities may in the future clarify the tax position on capital gains realised by the relevant Sub-Fund dealing in PRC Securities or by a relevant QFII from dealing in PRC Securities. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the PRC CIT law. If the foreign investor is a non-tax resident enterprise without PE in the PRC, a 10% WIT would be imposed on the PRC-sourced capital gains from the disposals of PRC Securities, unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

For tax residents in Hong Kong that have no PE in the PRC, capital gains arising from the disposal of Renminbi denominated corporate, government and non-government bonds, pursuant to the Arrangement may be exempted from the PRC WIT, subject to the approval of the PRC tax authorities.

A Sub-Fund (including the CSOP A50 ETF) that invests in China A-Shares will do so through the Manager's (which is a public Hong Kong tax resident) RQFII quota. Pursuant to the Arrangements, for tax residents in Hong Kong that have no PE in the PRC, capital gains arising from the disposal of the PRC Securities may be exempted from the PRC WIT provided that the Hong Kong resident holds less than 25% of the entire shareholding of the PRC enterprise, subject to the approval of the PRC tax authorities.

The above capital gain tax exemption will only apply if approval is obtained from the PRC tax authorities. In this connection, the Manager will further assess and seek to apply with PRC tax authorities to treat the relevant Sub-Fund and/or the Manager as Hong Kong tax resident and be able to enjoy the above capital gain tax exemption under the Arrangement, although this cannot be guaranteed. If the relevant approval is not obtained, the general rate of 10% will be applicable to the capital gains derived by the relevant Sub-Fund on dealing of the PRC Securities issued by PRC resident issuers.

(b) Business Tax (“BT”) and other surtaxes:

The revised PRC Provisional Regulations of BT (“**BT Law**”) which came into effect on 1 January 2009, stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%.

Caishui [2005] 155 states that gains derived by QFIIs from the trading of marketable securities (including China A-Shares and other PRC listed securities) are exempt from BT. The BT Law which came into effect on 1 January 2009, has not changed this exemption treatment at the time of this Prospectus. However, it is not clear whether a similar exemption would be extended to RQFIIs.

For marketable securities other than those trading under QFIIs, the BT Law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities. However, capital gains derived from trading of offshore PRC marketable securities (e.g. H-Shares) are not subject to BT.

The BT Law does not specifically exempt BT on interest earned by non-financial institution. Hence, interest on both government and corporate bonds in theory should be subject to 5% BT.

Dividend income or profit distributions on equity investment derived from China are not included in the taxable scope of BT.

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the BT liabilities.

(c) Stamp duty:

Stamp duty under the PRC laws generally applies to the execution and receipt of all taxable documents listed in the PRC's Provisional Rules on Stamp Duty. Stamp duty is levied on the execution or receipt in China of certain documents, including contracts for the sale of China A- and B-Shares traded on the PRC stock exchanges. In the case of contracts for sale of China A- and B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1%.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the relevant Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which the relevant Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

(d) Tax Provision:

The Manager will at the inception of the relevant Sub-Fund decide whether the investment objectives and policies of the relevant Sub-Fund would necessitate the making of tax provisions in respect of the relevant Sub-Fund for the above tax obligations based on independent tax advice obtained. Even if provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. Where any provision is made, the level of the provisioning will be set out in Part 2 of this Prospectus and amount of actual provision will be disclosed in the accounts of the relevant Sub-Fund. With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on gains derived from investments held by the relevant Sub-Fund. Upon any future resolution of the abovementioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. Investors should note that if provision for taxation is made, such provision may be excessive or inadequate to meet actual PRC tax liabilities on investments made by the relevant Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant PRC tax authorities. If no provision for potential withholding tax is made and in the event that the PRC tax authorities enforce the imposition of such withholding tax in respect of the relevant Sub-Fund's investment, the Net Asset Value of the relevant Sub-Fund may be affected. As a result, redemption proceeds or distributions may be paid to the relevant Unitholders without taking full account of tax that may be suffered by the relevant Sub-Fund, which tax will subsequently be borne by the relevant Sub-Fund and affect the Net Asset Value of the relevant Sub-Fund and the remaining Units in the relevant Sub-Fund. In this case, the then existing and new Unitholders will be disadvantaged from the shortfall.

On the other hand, if the provision is in excess of the final PRC tax liabilities attributable to the relevant Sub-Fund, the excess will be distributed to the Sub-Fund and reflected in the value of Units in the Sub-Fund. Notwithstanding the foregoing, please note that no Unitholders who have realised their Units in the Sub-Fund before the distribution of any excess provision to the relevant Sub-Fund shall be entitled to claim in whatsoever form any part of the withholding amounts distributed to that Sub-Fund, which amount would be reflected in the value of Units in the Sub-Fund. Therefore, Unitholders who have redeemed their Units will be disadvantaged as they would have borne the loss from the overprovision for PRC tax.

Government Intervention and Restriction. There may be substantial government intervention in the economy, including restrictions on investment in companies or industries deemed sensitive to relevant national interests.

Governments and regulators may also intervene in the financial markets, such as by the imposition of trading restrictions, a ban on "naked" short selling or the suspension of short selling for certain stocks. Further, intervention or restrictions by governments and regulators may affect the trading of A-shares or units of the relevant Sub-Fund. This may affect the operation and market making activities of a Sub-Fund, and may have an unpredictable impact on a Sub-Fund. This may also lead to an increased tracking error for the relevant Sub-Fund.



Furthermore, such market interventions may have a negative impact on the market sentiment which may in turn affect the performance of the Index and as a result the performance of a Sub-Fund. In worst case scenario, the investment objective of the relevant Sub-Fund cannot be achieved.

*Economic, political and social risks* The economy of China has been in a state of transition from a planned economy to a more market oriented economy. In many respects it differs from the economies of developed countries, including the level of government intervention, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions, including expropriation or confiscatory taxation, foreign exchange control or nationalisation of property held by issuers of the underlying securities in which the relevant Sub-Fund invests. These factors could adversely affect the performance of the relevant Sub-Fund.

*PRC law and regulations risk.* The PRC's legal system is based on written statutes and, therefore, prior court decisions do not have binding legal effect, although they are often followed by judges as guidance. The PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in promulgating laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, enforcement of such laws and regulations may be uncertain and sporadic, and implementation and interpretation of such laws and regulations may be inconsistent. The PRC's judiciary is relatively inexperienced in enforcing the existing laws and regulations, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate laws exist in the PRC, it may be difficult to obtain swift and equitable enforcement of such laws, or to obtain enforcement of a judgment by a court of another jurisdiction. The introduction of new Chinese laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. PRC laws and regulations affecting securities markets are relatively new and evolving. As the PRC's legal system develops, there can be no assurance that changes in such legislation or interpretation thereof will not have an adverse effect upon the business and prospects of the relevant Sub-Fund's portfolio investments in China.

## **4.2 Investment risks**

*General risks involved in investing in a Sub-Fund.* An investment in Units of a Sub-Fund involves risks similar to those of investing in a broad-based portfolio of securities traded on exchanges in the relevant overseas securities market, including market fluctuations caused by factors such as economic and political developments, changes in interest rates and perceived trends in security prices. The principal risk factors, which could decrease the value of an Investor's investment, are listed and described below:

- Less liquid and less efficient securities markets;
- Greater price volatility especially for Sub-Funds investing in equity securities;
- Exchange rate fluctuations and exchange controls;
- Less publicly available information about issuers;
- The imposition of restrictions on the expatriation of funds or other assets of a Sub-Fund;
- Higher transaction and custody costs and delays and risks of loss attendant in settlement procedures;
- Difficulties in enforcing contractual obligations;
- Lesser levels of regulation of the securities markets;
- Different accounting, disclosure and reporting requirements;
- More substantial government involvement in the economy;
- Higher rates of inflation; and
- Disruption of normal market trading and valuation of securities due to extreme market conditions, natural catastrophes, greater social, economic, and political uncertainty and the risk of nationalization or expropriation of assets and war or terrorism.

Investment risk. The Sub-Funds are not principal guaranteed and the purchase of its Units is not the same as investing directly in the Index Securities comprised in the Underlying Index.

Securities Risk. The investments of a Sub-Fund are subject to risks inherent in all Securities (including settlement and counterparty risks). The value of holdings may fall as well as rise. The global markets are currently experiencing very high levels of volatility and instability, resulting in higher levels of risk than is customary (including settlement and counterparty risks).

Equity Risk. Investing in equity Securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity Securities may also be higher, because the investment performance of equity Securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value.

Risk of Indemnity. Under the Trust Deed, the Trustee and the Manager (and their respective directors, officers and employees) shall be entitled, except to the extent of any fraud, negligence, or wilful default on its (or their) part, to be indemnified and held harmless out of the assets of the relevant Sub-Fund in respect of any (in addition to any right of indemnity given by law) action, costs, claims, damages, expenses or liabilities to which it (or they) may be put or which it (or they) may incur by virtue of the proper performance of their respective duties. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of a Sub-Fund and the value of the Units.

Market Risk. Market risk includes such factors as changes in economic environment, consumption pattern, lack of publicly available information of investments and their issuers and investors' expectations, etc. which may have significant impact on the value of the investments. Usually, emerging markets tend to be more volatile than developed markets and may experience substantial price volatility. Market movements may therefore result in substantial fluctuations in the Net Asset Value per Unit of the relevant Sub-Fund. The price of Units and the income from them may go down as well as up.

There can be no assurance that an investor will achieve profits or avoid losses, significant or otherwise. The capital return and income of a Sub-Fund is based on the capital appreciation and income on the Securities it holds, less expenses incurred. The Sub-Fund's return may fluctuate in response to changes in such capital appreciation or income.

Asset Class Risk. Although the Manager is responsible for the continuous supervision of the investment portfolio of each Sub-Fund, the returns from the types of Securities in which a Sub-Fund invests may underperform returns from other securities markets or from investment in other assets. Different types of Securities tend to go through cycles of out-performance and underperformance when compared with other general securities markets.

Tracking Error Risk. A Sub-Fund's returns may deviate from the Underlying Index due to a number of factors. For example, the fees and expenses of a Sub-Fund, liquidity of the market, imperfect correlation of returns between a Sub-Fund's assets and the Securities constituting its Underlying Index the rounding of share prices, foreign exchange costs, changes to the Underlying Indices and regulatory policies may affect the Manager's ability to achieve close correlation with the Underlying Index of each Sub-Fund and to rebalance the Sub-Fund's holdings of Index Securities in response to changes in the constituents of the Underlying Index. Further, a Sub-Fund may receive income (such as interests and dividends) from its assets while the Underlying Index does not have such sources of income. There is no guarantee or assurance of exact or identical replication at any time of the performance of the relevant Underlying Index.

Although the Manager regularly monitors the tracking error of each Sub-Fund, there can be no assurance that any Sub-Fund will achieve any particular level of tracking error relative to the performance of its Underlying Index.

Concentration Risk. If the Underlying Index of a Sub-Fund is concentrated in a particular security or group of securities of a particular industry or group of industries, that Sub-Fund may be adversely affected by or depend heavily on the performance of those securities and be subject to price volatility. In addition, the Manager may invest a significant percentage or all of the assets of a Sub-Fund in a single security, group of securities, industry or group of industries, and the performance of the Sub-Fund could be closely tied to that security, group of securities, industry or group of industries and could be more volatile than the performance of other more diversified funds, and be more susceptible to any single economic, market, political or regulatory occurrence.

Single country risk. The investments of a Sub-Fund which invest in a single country, are not as diversified as regional funds or global funds. This means that such Sub-Funds tend to be more volatile than other mutual funds and its portfolio value can be exposed to country specific risks.

Foreign Security Risk. A Sub-Fund may invest entirely within or may relate to the equity markets of a single country or region. These markets may be subject to special risks associated with foreign investment including market fluctuations caused by factors affected by political and economic development. Investing in the Securities of non-Hong Kong companies involves special risks and considerations not typically associated with investing in Hong Kong companies. These include differences in accounting, disclosure, auditing and financial reporting standards, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, the imposition of restrictions on the expatriation of funds or other assets of a Sub-Fund, political instability which could affect local investments in foreign countries, and potential restrictions on the flow of international capital. Non-Hong Kong companies may be subject to less governmental regulation than Hong Kong companies. Moreover, individual foreign economies may differ favourably or unfavourably from the Hong Kong economy in such respects as growth of gross domestic product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payment positions.

Management Risk. A Sub-Fund may be subject to management risk. This is the risk that the Manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. Although it is the Manager's intention to use full replication strategy to track the relevant Underlying Index for some of the Sub-Funds, there is no guarantee that this can be achieved, as the implementation of a full replication strategy may be subject to constraints which are beyond the control of the Manager. In addition, in the interest of a Sub-Fund, the Manager has absolute discretion to exercise shareholders' rights with respect to Index Securities comprising the relevant Sub-Fund. There can be no guarantee that the exercise of such discretion will result in the investment objective of the relevant Sub-Fund being achieved. Investors should also note that in certain cases, none of the Manager, the relevant Sub-Fund or the Unitholders has any voting rights with respect to Index Securities comprising the relevant Sub-Fund.

Passive Investments. The Sub-Funds are not actively managed. Each Sub-Fund invests in the Index Securities included in or reflecting its Underlying Index regardless of their investment merit. The Manager does not attempt to select securities individually or to take defensive positions in declining markets. Accordingly, the lack of discretion to adapt to market changes due to the inherent investment nature of each Sub-Fund means that falls in the related Underlying Index are expected to result in a corresponding fall in the value of the relevant Sub-Fund.

Restricted markets risk. A Sub-Fund may invest in securities in jurisdictions (including China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the relevant Sub-Fund may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers. This may lead to an increased tracking error for the relevant Sub-Fund.

Possible Business Failure Risk. In the current economic environment, global markets are experiencing very high level of volatility and an increased risk of corporate failures. The insolvency or other corporate failures of any one or more of the constituents of the Underlying Index may have an adverse effect on the Underlying Index and therefore the relevant Sub-Fund's performance. Investors may lose money by investing in a Sub-Fund.

Counterparty Risk. The Manager for the account of a Sub-Fund, may enter into transactions with financial institutions, such as brokerage firms, broker-dealers and banks, may enter into transactions in relation to such Sub-Fund's investments. The Sub-Fund may be exposed to the risk that such financial institutions, being a counterparty may not settle a transaction in accordance with market practice due to a credit or liquidity problem of the counterparty, or due to the insolvency, fraud or regulatory sanction of the counterparty, thus causing the Sub-Fund to suffer a loss.

In addition, a Sub-Fund may be exposed to the counterparty risk of a custodian, bank or financial institution ("custodian or depository") with which it deposits its securities or cash. These custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default of them. In these circumstances the relevant Sub-Fund may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the relevant Sub-Fund's assets.

Borrowing Risks. The Trustee, on the instruction of the Manager, may borrow for the account of a Sub-Fund (up to 25% of the Net Asset Value of the relevant Sub-Fund) for various reasons, such as facilitating redemptions or to acquire investments for the account of the relevant Sub-Fund. Borrowing involves an increased degree of financial risk and may increase the exposure of the relevant Sub-Fund to factors such as rising interest rates, downturns in the economy or deterioration in the conditions of the assets underlying its investments. There can be no assurance that the relevant Sub-Fund will be able to borrow on favourable terms, or that the relevant Sub-Fund's indebtedness will be accessible or be able to be refinanced by the relevant Sub-Fund at any time.

Accounting standards and disclosure. The Manager intends to adopt Hong Kong Financial Reporting Standards ("**HKFRS**") in drawing up the annual accounts of the Trust and the Sub-Funds. However, investors should note that the calculation of the Net Asset Value for determining fees and for subscription and redemption purposes will not necessarily be in compliance with generally accepted accounting principles, that is, HKFRS. Under HKFRS, investments should be valued at fair value, and bid and ask pricing is considered to be representative of fair value for long and short listed investments respectively. However, under the valuation basis described in the section "**10.1 Determination of the Net Asset Value**" below, listed investments may be valued by reference to the last traded price instead of bid and ask pricing as required under HKFRS. Accordingly, investors should note that the Net Asset Value as described in this Prospectus may not necessarily be the same as the Net Asset Value to be reported in the annual financial reports as the Manager may make necessary adjustments in the annual financial reports to comply with HKFRS. Any such adjustments will be disclosed in the annual financial reports, including a reconciliation note to reconcile values as shown in the annual accounts prepared in accordance with HKFRS to those derived by applying the relevant Trust's valuation rules.

Risk of early termination. Under the terms of the Trust Deed and as summarised under the section headed "**14.5 Termination of the Trust or a Sub-Fund**" of this Prospectus, the Manager or the Trustee may terminate the Trust or a Sub-Fund under certain circumstances.

In the event of the early termination of a Sub-Fund, the relevant Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund in accordance with the Trust Deed. It is possible that at the time of such sale or distribution, certain investments held by that Sub-Fund may be worth less than the initial cost of such investments, resulting in a substantial loss to the Unitholders. Moreover, any organisational expenses with regard to the relevant Sub-Fund that had not yet become fully amortised would be debited

against the relevant Sub-Fund's net assets at that time. Any amount distributed to the Unitholders of the relevant Sub-Fund may be more or less than the capital invested by such Unitholders.

*Emerging Market Risk.* Some overseas markets in which a Sub-Fund may invest are considered emerging market countries. The economies of many emerging markets are still in the early stages of modern development and subject to abrupt and unexpected change. In many cases, governments retain a high degree of direct control over the economy and may take actions that have a sudden and widespread effect. Also, many less developed market and emerging market economies have a high degree of dependence on a small group of markets or even a single market that can render such economies more susceptible to the adverse impact of internal and external shocks.

Emerging market regions are also subject to special risks including, but not limited to: generally less liquid and less efficient securities markets; generally greater price volatility; exchange rate fluctuations and exchange control; higher volatility of the value of debt (particularly as impacted by interest rates); imposition of restrictions on the expatriation of funds or other assets; less publicly available information about issuers; the imposition of taxes; higher transaction and custody costs; settlement delays and risk of loss; difficulties in enforcing contracts; less liquidity and smaller market capitalisations; less well regulated markets resulting in more volatile stock prices; different accounting and disclosure standards; governmental interference; higher inflation; social, economic and political uncertainties; custodial and/or settlement systems may not be fully developed which may expose a Sub-Fund to sub-custodial risk in circumstances whereby the Trustee will have no liability as provided under the provisions of the Trust Deed; the risk of expropriation of assets and the risk of war.

*Risk of War or Terrorist Attacks.* There can be no assurance that there will not be any terrorist attacks which could have direct or indirect effect on the markets in which investments of a Sub-Fund may be located and the corresponding political and/or economic effects arising therefrom if any, may in turn adversely affect the operation and profitability of the Sub-Fund.

*Cross class liability risk.* The Trust Deed allows the Trustee and the Manager to issue Units in separate classes. The Trust Deed provides for the manner in which liabilities are to be attributed across the various classes within a Sub-Fund under the Trust (liabilities are to be attributed to the specific class of a Sub-Fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant class (in the absence of the Trustee granting that person a security interest). However, the Trustee will have a right of reimbursement and indemnity out of the assets of the Trust which may result in unitholders of one class of Units of a Sub-Fund being compelled to bear the liabilities incurred in respect of another class of the Sub-Fund which Units such unitholders do not themselves own if there are insufficient assets attributable to that other class to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of one class of a Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of that Sub-Fund.

*Cross Sub-Fund liability risk.* The assets and liabilities of each Sub-Fund under the Trust will be tracked, for bookkeeping purposes, separately from the assets and liabilities of any other Sub-Funds, and the Trust Deed provides that the assets of each Sub-Fund should be segregated from each other. There is no guarantee that the courts of any jurisdiction will respect the limitations on liability and that the assets of any particular Sub-Fund will not be used to satisfy the liabilities of any other Sub-Fund.

*Dividends may not be paid.* Whether a Sub-Fund will pay distributions on Units is subject to the Manager's distribution policy and also depends on dividends declared and paid in respect of the Index Securities of the Underlying Index. Instead of distributing dividends to Unitholders, the Manager may in its discretion use dividends received from the Index Securities to pay a Sub-Fund's expenses. Dividend payment rates in respect of such Index Securities will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend policies of the relevant underlying entities.

There can be no assurance that such entities will declare or pay dividends or distributions.

No Right to Control a Sub-Fund's Operation. Investors of a Sub-Fund will have no right to control the daily operations, including investment and redemption decisions, of such Sub-Fund.

#### **4.3 Market Trading Risks**

Trading Risk. While the creation/redemption feature of the Trust is designed to make it more likely that Units will trade close to their Net Asset Value, disruptions to creations and redemptions (for example, as a result of imposition of capital controls by a foreign government) may result in a Sub-Fund trading at a significant premium / discount to its Net Asset Value. Also, there can be no assurance that an active trading market will exist or maintain for Units of a Sub-Fund on any securities exchange on which Units may trade.

The Net Asset Value of Units of a Sub-Fund will also fluctuate with changes in the market value of a Sub-Fund's holdings of Index Securities and changes in the exchange rate between the Base Currency and the subject foreign currency. The market prices of Units will fluctuate in accordance with changes in Net Asset Value and supply and demand on any exchange on which Units are listed. The Manager cannot predict whether Units will trade below, at or above their Net Asset Value. Price differences may be due, in large part, to the fact that supply and demand forces in the secondary trading market for Units will be closely related, but not identical, to the same forces influencing the prices of the Index Securities trading individually or in the aggregate at any point in time. Given, however, that Units must be created and redeemed in Application Unit aggregations (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their Net Asset Value), the Manager believes that ordinarily large discounts or premiums to the Net Asset Value of Units should not be sustained. In the event that the Manager suspends creations and/or redemptions of Units of a Sub-Fund, the Manager expects larger discounts or premiums between the secondary market price of Units and the Net Asset Value.

There is no certain basis for predicting the sizes in which the Units in the Sub-Fund may trade. There can be no assurance that the Units in the Sub-Fund will experience trading or pricing patterns similar to those of other exchange traded funds which are issued by investment companies in other jurisdictions or are traded on the SEHK.

No Trading Market in the Units. There may be no liquid trading market for the Units of a Sub-Fund notwithstanding the listing of such Units on the SEHK and the appointment of one or more market makers. Further, there can be no assurance that Units will experience trading or pricing patterns similar to those of exchange traded funds which are issued by investment companies in other jurisdictions or those traded on the SEHK which are based upon indices other than the Underlying Index.

Reliance on Market Maker(s). Although it is the Manager's intention that there will always be at least one market maker in respect of the Units, Investors should note that liquidity in the market for the Units may be adversely affected if there is no market maker for a Sub-Fund. It is possible that where there is only one SEHK market maker to each Sub-Fund and therefore it may not be practical for a Sub-Fund to remove the only market maker to the Sub-Fund even if the market maker fails to discharge its duties as the sole market maker.

Reliance on the Manager. Unitholders must rely upon the Manager in formulating the investment strategies and the performance of a Sub-Fund is largely dependent on the services and skills of its officers and employees. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case of the insolvency of the Manager, the Trustee may not find successor managers quickly and the new appointment may not be on equivalent terms or of similar quality. Therefore, the occurrence of those events could cause a deterioration in the Sub-Fund's performance and investors may lose money in those circumstances.

Reliance on Participating Dealer(s). The issuance and redemption of Units may only be effected through Participating Dealer(s). A Participating Dealer may charge a fee for providing

this service. Participating Dealer(s) will not be able to issue or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of securities through the CCASS is disrupted or the Underlying Index(ices) is/are not compiled or published. In addition, Participating Dealer(s) will not be able to issue or redeem Units if some other event occurs which impedes the calculation of the Net Asset Value of a Sub-Fund or disposal of a Sub-Fund's portfolio securities cannot be effected. Since the number of Participating Dealers at any given time will be limited, and there may even be one Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

*Absence of active market / liquidity risk.* The Units of a Sub-Fund may not initially be widely held upon their listing on the SEHK. Accordingly, any investor buying Units in small numbers may not necessarily be able to find other buyers should that investor wish to sell. To address this risk, one or more market makers have been appointed.

There can be no assurance that an active trading market for Units of a Sub-Fund will develop or be maintained. In addition, if the Index Securities which comprise the Sub-Fund themselves have limited trading markets, or if the spreads are wide, this may adversely affect the price of the Units and the ability of an investor to dispose of its Units at the desired price. If investors need to sell Units at a time when no active market for them exists, the price they receive for such Units — assuming they are able to sell them — would likely be lower than the price received if an active market did exist.

In addition, the price at which Index Securities may be purchased or sold by a Sub-Fund upon any rebalancing activities or otherwise and the value of the Units may be adversely affected if trading markets for the Sub-Fund's portfolio securities are limited, inefficient or absent or if bid-offer spreads are wide.

*Restrictions on creation and redemption of Units.* Investors should note that a Sub-Fund is not like a typical retail investment fund offered to the public in Hong Kong (for which units can generally be purchased and redeemed directly from the manager). Units of a Sub-Fund may only be created and redeemed in Application Unit sizes directly by a Participating Dealer (either on its own account or on behalf of an investor through a stockbroker which has opened an account with the Participating Dealer). Other investors may only make a request (and if such investor is a retail investor, through a stockbroker which has opened an account with a Participating Dealer) to create or redeem Units in Application Unit sizes through a Participating Dealer which reserves the right to refuse to accept a request from an investor to create or redeem Units under certain circumstances. Alternatively, investors may realize the value of their Units by selling their Units through an intermediary such as a stockbroker on the SEHK, although there is a risk that dealings on the SEHK may be suspended. Please refer the sections **"7.3.5 Rejection of Creation Applications"** and **"7.4.4 Rejection of Redemption Applications"** for details in relation to the circumstances under which creation and redemption applications can be rejected.

*Units may trade at prices other than NAV.* The Net Asset Value of a Sub-Fund represents the fair price for buying or selling Units. As with any listed fund, the market price of Units may sometimes trade above or below this NAV. There is a risk, therefore, that Unitholders may not be able to buy or sell at a price close to this NAV. The deviation from NAV is dependent on a number of factors, but will be accentuated when there is a large imbalance between market supply and demand for Index Securities. The "bid/ask" spread (being the difference between the prices being bid by potential purchasers and the prices being asked by potential sellers) is another source of deviation from NAV. The bid/ask spread can widen during periods of market volatility or market uncertainty, thereby increasing the deviation from NAV. Please also note that the fact that an investor purchases the Units from the secondary market with premium does not mean that such investor is guaranteed of the return of the premium an investor pays. In the event that an investor is unable to get back the premium he pays, and he will suffer loss when selling the Units.

*Costs of trading Units risk.* Trading of Units on the SEHK may involve various types of costs that apply to all securities transactions. When trading Units through a broker investors will

incur a brokerage commission or other charges imposed by the broker. In addition, investors on the secondary market will also incur the cost of the trading spread, being the difference between what investors are willing to pay for the Units (bid price) and the price at which they are willing to sell Units (ask price). Frequent trading may detract significantly from investment results and an investment in Units may not be advisable particularly for investors who anticipate regularly making small investments.

Difficulties in valuation of investments. Securities acquired on behalf of a Sub-Fund may subsequently become illiquid due to events relating to the issuer of the securities, market and economic conditions and regulatory sanctions. In cases where no clear indication of the value of a Sub-Fund's portfolio securities is available (for example, when the secondary markets on which a security is traded have become illiquid) the Manager may apply valuation methods to ascertain the fair value of such securities, pursuant to the Trust Deed.

Securities volatility risk. Prices of securities may be volatile. Price movements of securities are difficult to predict and are influenced by, among other things, changing supply and demand relationships, governmental trade, fiscal, monetary and exchange control policies, national and international political and economic events, and the inherent volatility of the market place. A Sub-Fund's value will be affected by such price movements and could be volatile, especially in the short-term.

Effect of redemptions. If significant redemptions of Units are requested by the Participating Dealers, it may not be possible to liquidate the Sub-Fund's investments at the time such redemptions are requested or the Manager may be able to do so only at prices which the Manager believes does not reflect the true value of such investments, resulting in an adverse effect on the return to investors. Where significant redemptions of Units are requested by the Participating Dealers, the right of Participating Dealers to require redemptions in excess of 10% of the total number of Units in the Sub-Fund then in issue (or such higher percentage as the Manager may determine) may be deferred, or the period for the payment of redemption proceeds may be extended.

In addition, the Manager may also in certain circumstances suspend the determination of the Net Asset Value of the Sub-Fund for the whole or any part of any period. Please see section **"10.2 Suspension Of Determination Of Net Asset Value"** for further details.

Secondary market trading risk. Units may trade on the SEHK when the Sub-Fund does not accept orders to subscribe or redeem Units. On such days, Units may trade in the secondary market with more significant premiums or discounts than might be experienced on days when the Sub-Fund accepts subscription and redemption orders.

#### **4.4 Regulatory risks**

Legal and Regulatory Risk. A Sub-Fund must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in a Sub-Fund's investment policy and objective. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the underlying securities of a Sub-Fund and as a result the performance of a Sub-Fund. It is impossible to predict whether such an impact caused by any change of law will be positive or negative for a Sub-Fund. In the worst case scenario, a Unitholder may lose a material part of its investment in a Sub-Fund.

Risk of withdrawal of authorization by the Commission. Each Sub-Fund seeks to provide investment results that closely correspond with the performance of the relevant Underlying Index. One or more Sub-Funds have been authorized as a collective investment scheme under the Code by the Commission pursuant to section 104 of the Securities and Futures Ordinance. However, the Commission reserves the right to withdraw the authorization of a Sub-Fund, for example, if the Commission considers the relevant Underlying Index is no longer acceptable to the Commission. The Commission's authorisation is not a recommendation or endorsement of a Sub-Fund nor does it guarantee the commercial merits of a Sub-Fund or its performance. This does not mean the Sub-Fund is suitable for all



investors nor is it an endorsement of its suitability for any particular investor or class of investors.

*Risk relating to de-listing.* The SEHK imposes certain requirements for the continued listing of Securities, including the Units, on the SEHK. Investors cannot be assured that the Sub-Funds will continue to meet the requirements necessary to maintain the listing of Units on the SEHK or that the SEHK will not change the listing requirements. If the Units are delisted from the SEHK, the Manager may, in consultation with the Trustee, seek the Commission's prior approval to operate the Sub-Fund as an unlisted Sub-Fund (subject to any necessary amendments to the rules of the Sub-Fund) or terminate the Sub-Fund and will notify investors accordingly.

*Risk of suspension of trading on the SEHK.* If trading of the Units of a Sub-Fund on the SEHK is suspended or trading generally on the SEHK is suspended, then there will be no secondary market dealing for those Units. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate in the interests of a fair and orderly market to protect investors. The subscription and redemption of Units may also be suspended if the trading of Units is suspended.

*Taxation.* Investing in the Sub-Fund may have tax implications for a Unitholder depending on the particular circumstances of each Unitholder. Prospective investors are strongly urged to consult their own tax advisers and counsel with respect to the possible tax consequences to them of an investment in the Units. Such tax consequences may differ in respect of different investors.

#### **4.5 Risks associated with the Underlying Index**

*The Underlying Index is subject to fluctuations.* The performance of the Units should, before fees and expenses, correspond closely with the performance of the Underlying Index. If the Underlying Index experiences volatility or declines, the price of the Units will vary or decline accordingly.

*Licence to use the Underlying Index may be terminated.* The Manager has been granted a licence by each of the Index Providers to use the relevant Underlying Index in order to create a Sub-Fund based on the relevant Underlying Index and to use certain trade marks and any copyright in the relevant Underlying Index. A Sub-Fund may not be able to fulfil its objective and may be terminated if the licence agreement between the Manager and the relevant Index Provider is terminated. The initial term of the licence agreement of a Sub-Fund and the manner in which such licence agreement may be renewed are set out in Part 2 of this Prospectus. Generally, a licence agreement may be terminated by the Manager and the relevant Index Provider by mutual agreement, and there is no guarantee that the licence agreement will be perpetually renewed. Further details on the grounds on which the licence agreement of a Sub-Fund may be terminated are set out in Part 2 of this Prospectus. A Sub-Fund may also be terminated if the relevant Underlying Index ceases to be compiled or published and there is no replacement Underlying Index using the same or substantially similar formula for the method of calculation as used in calculating the relevant Underlying Index.

*Compilation of Underlying Index.* Each Sub-Fund is not sponsored, endorsed, sold or promoted by the relevant Index Provider. Each Index Provider makes no representation or warranty, express or implied, to investors in the relevant Sub-Fund or other persons regarding the advisability of investing in Index Securities or futures generally or in the relevant Sub-Fund particularly. Each Index Provider has no obligation to take the needs of the Manager or investors in the relevant Sub-Fund into consideration in determining, composing or calculating the relevant Underlying Index. There is no assurance that the Index Provider will compile the relevant Underlying Index accurately, or that the relevant Underlying Index will be determined, composed or calculated accurately, and consequently there can be no guarantees that its actions will not prejudice the interests of the relevant Sub-Fund, the Manager or investors.

Composition of the Underlying Index may change. The composition of the Index Securities constituting the relevant Underlying Index will change as the Index Securities may be delisted, or as new Securities or futures are included in the relevant Underlying Index. When this happens, the weightings or composition of the Index Securities owned by a Sub-Fund would be changed as considered appropriate by the Manager in order to achieve the investment objective. Thus, an investment in Units will generally reflect the relevant Underlying Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. However, there can be no guarantee that a particular Sub-Fund will, at any given time accurately reflect the composition of the relevant Underlying Index. Please refer to “**Tracking Error Risk**” under section “**4.2 Investment Risks**” above.

Risk of change in methodology of the Underlying Index. The construction methodology of the relevant Underlying Index may change when the Index Provider deems it necessary to adapt to significant changes in the market condition. When this happens, the weightings or composition of the Index Securities owned by a Sub-Fund would be changed as considered appropriate by the Manager in order to continue to achieve the investment objective under the revised Underlying Index. Thus, an investment in Units will generally reflect the relevant Underlying Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units.

**Investors should refer to Part 2 of this Prospectus for details of any additional risks specific to a Sub-Fund (including the CSOP A50 ETF).**

## **5. INVESTMENT AND BORROWING RESTRICTIONS**

Investors should refer to Schedule 1 for a list of investment and borrowing restrictions applicable to the Sub-Funds of the Trust.

Investors should refer to Part 2 of this Prospectus for details of any additional investment restrictions specific to a Sub-Fund (including the CSOP A50 ETF).

## **6. INVESTING IN A SUB-FUND**

There are currently two methods to invest in the Sub-Funds:

### **6.1 In the Primary Market**

- Primary Market Investors may make a request to a Participating Dealer or a stockbroker (who has opened an account with a Participating Dealer) to effect a Creation Application or a Redemption Application on their behalf.
- Because of the size of the capital investment (i.e. Application Unit size) required either to create or redeem Units through the Participating Dealer in the primary market, this method of investment is more suitable for institutional investors and market professionals.
- Participating Dealers may submit a Creation Application or a Redemption Application to create or redeem Units directly in the relevant Sub-Fund.

Please refer to section “**7. Creation and Redemption of Application Units (Primary Market)**” below for the operational procedures in respect of Creation Applications. Creation and redemption of Units by Participating Dealers will be conducted in accordance with the Trust Deed, the Operating Guidelines and the relevant Participation Agreement.

### **6.2 In the Secondary Market (SEHK)**

- Secondary Market Investors may purchase and sell Units in the secondary market on the SEHK. This method of investment is more suitable for retail investors due to the smaller size of capital investment.

- The Units of a Sub-Fund may trade on the SEHK at a premium or discount to the Net Asset Value of the Units of such Sub-Fund.

Please refer to section “**9. Trading of Units on the SEHK (Secondary Market)**” below for further information in respect of buying and selling Units on the SEHK.

## **7. CREATION AND REDEMPTION OF APPLICATION UNITS (PRIMARY MARKET)**

### **7.1 General**

This section provides general information regarding the creation and redemption of Units of the Sub-Funds of the Trust. Specific details relating to a Sub-Fund (including the CSOP A50 ETF) are set out in Part 2 of this Prospectus.

### **7.2 Applications by Primary Market Investors**

Primary Market Investors are investors who make a request to a Participating Dealer or a stockbroker (who has opened an account with a Participating Dealer) to effect an Application on their behalf.

Each initial Participating Dealer has indicated to the Manager that it will, subject to (i) normal market conditions, (ii) mutual agreement between the relevant Participating Dealer and the Primary Market Investor as to its fees for handling such request(s), and (iii) completion of anti-money laundering and/or client acceptance procedures and requirements, generally accept and submit creation requests or redemption requests received from a Primary Market Investor who is its client, subject to exceptional circumstances set out below. Investors should note that, although the Manager has a duty to monitor the operations of the Trust closely, neither the Trustee nor the Manager is empowered to compel the Participating Dealer to accept a creation request or redemption request from a Primary Market Investor. Primary Market Investors who are retail investors may only submit a creation request or redemption request through a stockbroker who has opened an account with a Participating Dealer.

In addition, a Participating Dealer reserves the right to reject, acting in good faith, any creation request or redemption request received from Primary Market Investor who is its client under exceptional circumstances, including without limitation the following circumstances:

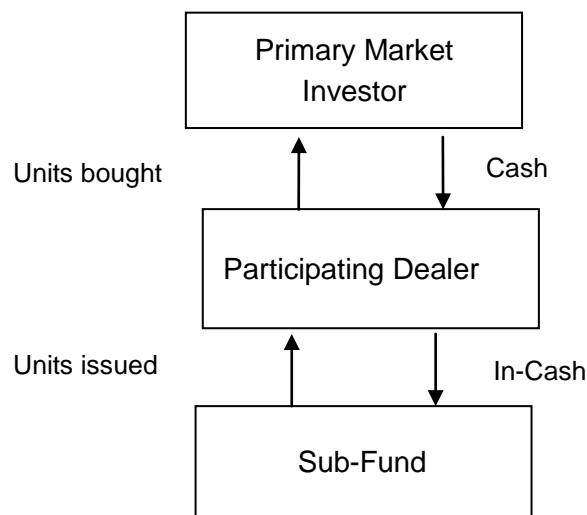
- any period during which (i) the creation or issue of Units of a Sub-Fund, (ii) the redemption of Units of a Sub-Fund, and/or (iii) the determination of Net Asset Value of a Sub-Fund is suspended pursuant to the provisions in the Trust Deed;
- where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Index Securities in the relevant Underlying Index;
- where acceptance of the creation request or redemption request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer and/or any of its Connected Persons; or
- circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the creation request or redemption request.

Investors should note that the Participating Dealers and the stockbrokers through whom an Application is made for creation or redemption of Units may impose an earlier dealing deadline, require other supporting documents for the Application and adopt other dealing procedures different from those set out for the Sub-Funds in this Prospectus. For example, the dealing deadline set by the Participating Dealers or the stockbrokers may be earlier than that set out for a Sub-Fund (including the CSOP A50 ETF) in this Prospectus. Investors should therefore

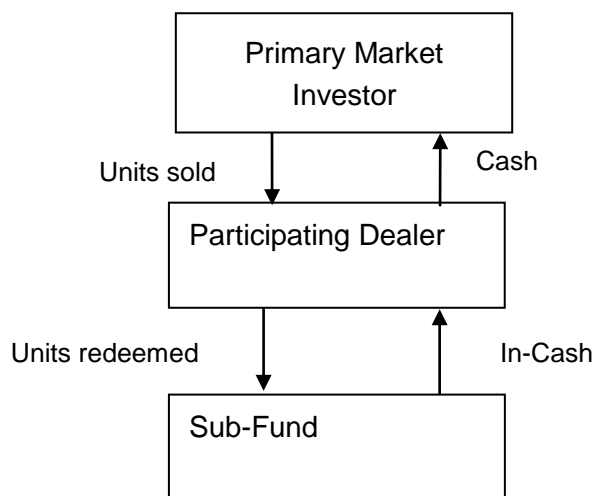
check the applicable dealing procedures with the relevant Participating Dealer or stockbroker (as the case may be).

Participating Dealers and stockbrokers may also impose fees and charges in handling any creation or redemption requests of Primary Market Investors which would increase the cost of investment and/or reduce the redemption proceeds. Participating Dealers and stockbrokers may also impose additional terms and restrictions on the holdings of Primary Market Investors and/or may accept or reject the creation or redemption requests of Primary Market Investors based on their internal policies. Please note that although the Manager has a duty to monitor the operations of the Trust closely, neither the Trustee nor the Manager is empowered to compel any Participating Dealer or stockbroker to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager or the Trustee, or to accept any application requests received from third parties. Primary Market Investors are advised to check with the Participating Dealers or stockbrokers as to the relevant fees, costs and other applicable terms.

The following illustrates the process of the creation and issue of Units in the case of Primary Market Investors.



The following illustrates the process of redemption of Units in the case of Primary Market Investors.

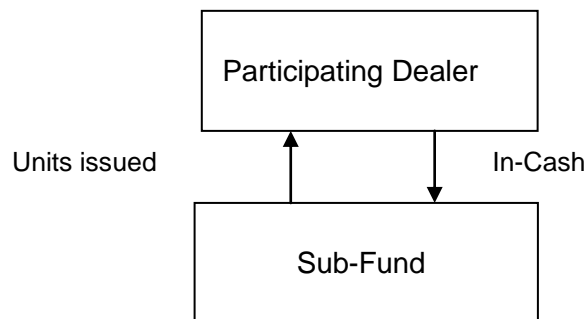


### 7.3 Creation Applications by Participating Dealers

Unless otherwise determined by the Manager, in consultation with the Trustee, a Creation Application shall only be made by a Participating Dealer in respect of a Dealing Day in accordance with the terms of the Trust Deed and the relevant Participation Agreement either during the Initial Offer Period or on a Dealing Day in respect of Units constituting an Application Unit size or whole multiples thereof. The Application Unit size for a Sub-Fund (including the CSOP A50 ETF) is set out in Part 2 of this Prospectus.

Additional details on the Initial Offer Period, the Dealing Deadline and other relevant information in respect of Creation Applications for Units in a Sub-Fund (including the CSOP A50 ETF) are set out in Part 2 of this Prospectus. Any Creation Application received after the Dealing Deadline will be considered as received on the next Dealing Day unless otherwise determined by the Manager.

The following illustrates the process of the creation and issue of Units in the case of Participating Dealers.



#### 7.3.1 **Procedures for Creation of Units**

A Creation Application once given cannot be revoked or withdrawn without the consent of the Manager.

To be effective, a Creation Application must comply with the requirements in respect of creation of Units set out in the Trust Deed, the Operating Guidelines and the relevant Participation Agreement and be accompanied by such certifications and legal opinions as the Trustee and/or the Manager may in their absolute discretion require. Pursuant to a valid Creation Application being accepted by the Manager, the Manager and/or any person duly appointed by the Manager for such purpose shall have the exclusive right to instruct the Trustee to create for the account of the Trust, Units in a class in Application Unit size or whole multiples thereof in exchange for the delivery by the relevant Participating Dealer, to or for the account of the Trustee, of:

- (a) a cash payment equivalent to the relevant Application Basket Value (which shall be accounted for as Deposited Property), which the Manager shall use to purchase the Index Securities constituting the Basket(s), and the Manager shall be entitled in its absolute discretion to charge (for the account of the relevant Sub-Fund) to each Participating Dealer an additional sum which represents the appropriate provision for Duties and Charges (which may include, but is not limited to, a provision for stamp duties and other transaction charges or taxes applicable to the purchase (or estimated to be applicable to the future purchase) of the relevant Index Securities,

plus,

- (b) if the Cash Component is a positive value, a cash payment equivalent to the amount of the relevant Cash Component; if the Cash Component is a negative value, the Trustee shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to the relevant Participating Dealer. If the relevant Sub-Fund has insufficient cash required to pay any Cash Component payable by the relevant Sub-Fund, the Manager may instruct the Trustee to sell the Deposited Property of the relevant Sub-Fund, or to borrow moneys to provide the cash required.

The Manager currently only accepts cash payments in the Base Currency of the relevant Sub-Fund in respect of Creation Applications in the manner set out above (an **"In-Cash Application"**).

In relation to such In-Cash Applications, the Manager reserves the right to require the Participating Dealer to pay an additional sum representing the Duties and Charges for the purpose of compensating or reimbursing the Trust for the difference between:

- (a) the prices used when valuing the relevant Index Securities of the Trust for the purpose of such issue of Units; and
- (b) the prices which would be used when acquiring the same Index Securities if they were acquired by the Trust with the amount of cash received by the Trust upon such issue of Units.

The Participating Dealer may pass on to the relevant investor such additional sum.

Units are denominated in the Base Currency of the relevant Sub-Fund (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee. Once Units are created, the Manager shall instruct the Trustee to issue, for the account of the relevant Sub-Fund, the Units to the relevant Participating Dealer. The Base Currency of each Sub-Fund (including the CSOP A50 ETF) is specified in Part 2 of this Prospectus.

### **7.3.2 Issue Price**

The Issue Price of Units of a Sub-Fund (including the CSOP A50 ETF) is set out in Part 2 of this Prospectus. For the avoidance of doubt, the Issue Price does not take into account Duties and Charges or fees payable by the Participating Dealers.

Any commission, remuneration or other sums payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price of such Unit and shall not be paid by the Trust.

### **7.3.3 Creation and Issue of Units**

Where a Creation Application is received or deemed to be received and accepted before the Dealing Deadline on a Dealing Day, the creation and issue of Units pursuant to that Creation Application shall be effected on that Dealing Day, but:

- (a) for valuation purposes only, Units shall be deemed to be created and issued after the Valuation Point on the relevant Valuation Day relating to that Dealing Day; and
- (b) the Register shall be updated after the Valuation Point for the Valuation Day relating to the Dealing Day on which the Creation Application is deemed to be accepted provided that the Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the Register if at any time the Trustee is of the opinion that the issue of Units does not comply with the provisions of the Trust Deed.

### **7.3.4 Fees relating to Creation Applications**

In respect of each Creation Application, the Manager shall be entitled to charge certain fees and charges and the Trustee shall be entitled to charge a Transaction Fee, details of which are set out in Part 2 of this Prospectus, which shall be paid by or on behalf of the relevant Participating Dealer and may be set off and deducted against any Cash Component due to the relevant Participating Dealer in respect of such Creation Application.

### **7.3.5 Rejection of Creation Applications**

The Manager, acting reasonably and in good faith, has the absolute right to reject a Creation Application, including but not limited to when:

- (a) any period during which (i) the creation or issue of Units of the relevant Sub-Fund, (ii) the redemption of Units of the relevant Sub-Fund, and/or (iii) determination of the Net Asset Value of the relevant Sub-Fund has been suspended pursuant to the provisions in the Trust Deed;
- (b) in the reasonable opinion of the Manager, acceptance of the Creation Application will have an adverse effect or adverse tax consequences on the Trust or the relevant Sub-Fund or is unlawful or will have an adverse effect on the interests of the Unitholders;
- (c) there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Index Securities in the relevant Underlying Index;
- (d) acceptance of the Creation Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons;
- (e) processing of the Creation Application is not possible due to exceptional circumstances outside the control of the Manager (such as market disruptions or circumstances under which acceptance of the Creation Application will have a material adverse impact on the relevant Sub-Fund);
- (f) the Creation Application is not submitted in the form and manner set out in the provisions of the Trust Deed;
- (g) an Insolvency Event occurs in respect of the relevant Participating Dealer; or
- (h) there are insufficient Index Securities available to the Manager and/or the Trust to constitute the Basket(s) in respect of a Creation Application,

provided that the Manager will take into account the interest of the Unitholders of the Trust and/or the relevant Sub-Fund to ensure that the interests of the Unitholders will not be materially adversely affected. In addition to the foregoing, the Manager may also reject Creation Applications in such other circumstances as set out in Part 2 of this Prospectus.

In the event of such rejection, the Manager shall notify the relevant Participating Dealer and the Trustee of its decision to reject such Creation Application in accordance with the Operating Guidelines.

The Manager's right to reject a Creation Application is separate and in addition to a Participating Dealer's right to reject, acting in good faith, any creation request received from a client of the Participating Dealer under exceptional circumstances. Notwithstanding a Participating Dealer has accepted creation requests from its clients and in that connection submitted an effective Creation Application, the Manager may

exercise its rights to reject such Creation Application in the circumstances described herein.

### **7.3.6 Cancellation of Creation Applications**

Any cash payment for exchange of Units, the Cash Component (if applicable) and/or any Duties and Charges and other fees and charges payable in respect of a Creation Application must be received in cleared funds by such times and in such manner as prescribed in the relevant Participation Agreements and if the cleared funds have not been received by or on behalf of the Trustee as aforementioned the Trustee may, on the instruction of the Manager, cancel the Creation Application, and any Units deemed created and issued in respect of such Creation Application. In addition to the preceding circumstances, the Trustee may also, on the instruction of the Manager, cancel any Creation Application and any Units deemed created and issued in respect of such Creation Application if it determines by such time specified in the Operating Guidelines that it is unable to invest the cash proceeds of any Creation Application.

Upon the cancellation of any Creation Application and any Units deemed created pursuant to a Creation Application as provided for above or if a Participating Dealer, with the approval of the Manager, withdraws a Creation Application other than in the circumstances contemplated in the Trust Deed, such Units shall be deemed for all purposes never to have been created and the relevant Participating Dealer shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:

- (a) any cash received by or on behalf of the Trustee in respect of such cancelled Units shall be redelivered to the Participating Dealer without interest;
- (b) the Manager shall be entitled to charge the Participating Dealer for the account and benefit of the Trustee an Application Cancellation Fee and any other fees and charges as set out in the Operating Guidelines;
- (c) the Manager may at its absolute discretion require the Participating Dealer to pay to the Trustee for the account of the relevant Sub-Fund in respect of each cancelled Unit Cancellation Compensation, being the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Price which would have applied in relation to each such Unit if a Participating Dealer had, on the date on which such Units are cancelled, made a Redemption Application;
- (d) the Trustee shall be entitled to charge the Participating Dealer the Transaction Fee payable in respect of the Creation Application for the account and benefit of the Trustee;
- (e) the Manager shall be entitled to require the Participating Dealer to pay to the Trustee for the account of the relevant Sub-Fund the Duties and Charges (if any) incurred by the Trust in consequence of such cancelled Creation Application which shall be retained for the benefit of the relevant Sub-Fund; and
- (f) no previous valuations of the assets in respect of a Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

### **7.4 Redemption Applications by Participating Dealers**

Unless otherwise determined by the Manager, in consultation with the Trustee, a Redemption Application shall only be made by a Participating Dealer in respect of a Dealing Day in accordance with the terms of the Trust Deed and the relevant Participation Agreement on a Dealing Day in respect of Units constituting an Application Unit size or whole multiples thereof.

Additional details on the Dealing Deadline and other relevant information in respect of Redemption Applications for Units in a Sub-Fund (including the CSOP A50 ETF) are set out in



Part 2 of this Prospectus.

Any Redemption Application received after the Dealing Deadline will be considered as received on the next Dealing Day unless otherwise determined by the Manager.

#### **7.4.1 Procedures for Redemption of Units**

A Redemption Application once given cannot be revoked or withdrawn without the consent of the Manager.

To be effective, a Redemption Application must comply with the requirements in respect of redemption of Units set out in the Trust Deed, the Operating Guidelines and the relevant Participation Agreement and be accompanied by such certifications and legal opinions as the Trustee and/or the Manager may require. Pursuant to a valid Redemption Application accepted by the Manager, the Manager shall instruct the Trustee to cancel the relevant Units on the Settlement Day in accordance with the Trust Deed and the relevant Participation Agreements and Operating Guidelines and to transfer to the Participating Dealer:

- (a) the redemption proceeds in cash provided that the Manager shall be entitled in its absolute discretion to charge (for the account of the Sub-Fund) to each Participating Dealer an additional sum which represents the appropriate provision for Duties and Charges (which may include, but is not limited to, a provision for stamp duties and other transaction charges or taxes applicable to the sale (or estimated to be applicable to the future sale) of the relevant Index Securities),

plus,

- (b) where the Cash Component is a positive value, a cash payment equivalent to the amount of the Cash Component. If the relevant Sub-Fund has insufficient cash to pay any Cash Component payable by the Sub-Fund, the Manager may instruct the Trustee to sell the Deposited Property of the relevant Sub-Fund, or to borrow moneys, to provide the cash required. If the Cash Component is a negative value, the Participating Dealer shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to or to the order of the Trustee.

The Manager currently only allows redemption proceeds to be paid out in cash in the Base Currency of the relevant Sub-Fund in respect of Redemption Applications in the manner set out above (an “**In-Cash Redemption**”).

In relation to such In-Cash Redemptions, the Manager reserves the right to require the Participating Dealer to pay an additional sum representing Duties and Charges for the purpose of compensating or reimbursing the Trust for the difference between:

- (a) the prices used when valuing the relevant Index Securities of the Trust for the purpose of such redemption of Units; and
- (b) the prices which would be used when selling the same Index Securities if they were sold by the Trust in order to realise the amount of cash required to be paid out of the Trust upon such redemption of Units.

The Participating Dealer may pass on to the relevant investor such additional sum.

#### **7.4.2 Redemption Price**

The Redemption Price of Units of a Sub-Fund (including the CSOP A50 ETF) is set out in Part 2 of this Prospectus. For the avoidance of doubt, the Redemption Price does not take into account Duties and Charges or fees payable by the Participating

Dealers.

#### **7.4.3 Payment of Redemption Proceeds**

The maximum interval between (i) the receipt of a properly documented Redemption Application and (ii) payment of redemption proceeds (in cash) to the relevant Participating Dealer may not exceed one (1) calendar month unless the market(s) in which a substantial portion of investments of the relevant Sub-Fund is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the redemption proceeds within the aforesaid time period not practicable. In such case, and subject to the Commission's prior approval, payments may be delayed but the extended time frame for the payment of redemption proceeds shall reflect the additional time needed in light of the specific circumstances in the relevant market(s). Subject to the above, payment of redemption proceeds will normally be made within 3 Business Days of the relevant Dealing Day.

#### **7.4.4 Rejection of Redemption Applications**

The Manager, acting reasonably and in good faith, has the absolute right to reject a Redemption Application in exceptional circumstances or to impose different minimum redemption size requirements, including but not limited to when:

- (a) any period during which (i) the creation or issue of Units of the relevant Sub-Fund, (ii) the redemption of Units of the relevant Sub-Fund, and/or (iii) the determination of Net Asset Value of the relevant Sub-Fund has been suspended pursuant to the provisions of the Trust Deed;
- (b) in the reasonable opinion of the Manager, acceptance of the Redemption Application will have an adverse effect on the Trust or the relevant Sub-Fund;
- (c) there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the relevant Underlying Index;
- (d) acceptance of the Redemption Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons;
- (e) processing of the Redemption Application is not possible due to circumstances outside the control of the Manager (such as market disruptions or circumstances under which acceptance of the Redemption Application will have a material adverse impact on the relevant Sub-Fund); or
- (f) the Redemption Application is not submitted in the form and manner set out in the provisions of the Trust Deed;

provided that the Manager will take into account the interest of the Unitholders of the Trust and/or the relevant Sub-Fund to ensure that the interests of the Unitholders will not be materially adversely affected. In addition to the foregoing, the Manager may also reject Redemption Applications in such other circumstances as set out in Part 2 of this Prospectus.

In the event of such rejection, the Manager shall notify the relevant Participating Dealer and the Trustee of its decision to reject such Redemption Application in accordance with the Operating Guidelines.

The Manager's right to reject a Redemption Application is separate and in addition to a Participating Dealer's right to reject, acting in good faith, any redemption request received from a client of the Participating Dealer under exceptional circumstances.

Notwithstanding a Participating Dealer has accepted redemption requests from its clients and in that connection submitted an effective Redemption Application, the Manager may exercise its rights to reject such Redemption Application in the circumstances described herein.

#### **7.4.5 *Deferral of Redemption Applications***

In addition, the Manager is entitled to limit the number of Units of any Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue (rounded down to the extent required to ensure that Units may only be redeemed in multiples of Application Units). In this event, the limitation will apply pro rata so that all Participating Dealers of the relevant Sub-Fund who have validly requested to redeem Units of the same Sub-Fund on that Dealing Day will redeem the same proportion of such Units of that Sub-Fund. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, and will have priority on the next succeeding Dealing Day and all following Dealing Days (in relation to which the Manager has the same power) until the original request has been satisfied in full.

#### **7.4.6 *Fees relating to Redemption of Units***

In respect of each Redemption Application, the Manager shall be entitled to charge certain fees and charges and the Trustee shall be entitled to charge a Transaction Fee, details of which are set out in Part 2 of this Prospectus, which shall be paid by or on behalf of the relevant Participating Dealer and may be set off and deducted against any Cash Component or cash redemption proceeds due to the relevant Participating Dealer in respect of such Redemption Application.

The Manager shall also be entitled to deduct from and set off against any cash redemption proceeds or Cash Component payable to a Participating Dealer on the redemption of Units a sum (if any) which represents the appropriate provision for Duties and Charges, the Transaction Fee (for the account and benefit of the Trustee) and any other fees, charges and payments payable by the Participating Dealer.

#### **7.4.7 *Cancellation of Units pursuant to Redemption Application***

Upon redemption of Units pursuant to a valid Redemption Application,

- (a) the funds of the relevant Sub-Fund shall be deemed to be reduced by the cancellation of such Units and, for valuation purposes, such Units shall be deemed to have been redeemed and cancelled after the Valuation Point for the Valuation Day relating to the Dealing Day on which the Redemption Application is or is deemed to be received; and
- (b) the name of the Unitholder of such Units shall be removed from the Register after the Valuation Point for the Valuation Day relating to the Dealing Day on which the Redemption Application is deemed to be accepted.

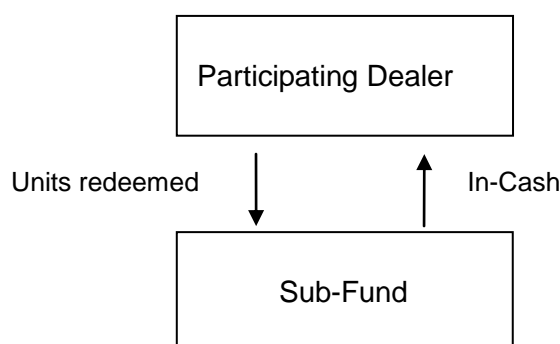
#### **7.4.8 *Cancellation of Redemption Applications***

In respect of a Redemption Application, unless the requisite documents in respect of the relevant Units have been delivered to the Manager by such times and in such manner as prescribed in the relevant Participation Agreements and/or Operating Guidelines, the Redemption Application shall be deemed never to have been made except that the Transaction Fee (for the account and benefit of the Trustee) in respect of such Redemption Application shall remain due and payable, and in such circumstances:

- (a) the Manager shall also be entitled to charge the relevant Participating Dealer an Application Cancellation Fee which is payable to the Trustee for its own account and such fees and charges as set out in the Operating Guidelines;
- (b) the Manager may at its absolute discretion require the relevant Participating Dealer to pay to the Trustee, for the account of the relevant Sub-Fund, Cancellation Compensation in respect of each Unit, being the amount (if any) by which the Redemption Price of each Unit is less than the Issue Price which would have applied in relation to each Unit if a Participating Dealer had, on the final day permitted for delivery of the requisite documents in respect of the Units which are the subject of the Redemption Application, made a Creation Application; and
- (c) no previous valuations of the relevant Sub-Fund shall be re-opened or invalidated as a result of an unsuccessful Redemption Application,

provided that the Manager, in consultation with the Trustee, may at its discretion extend the settlement period on such terms and conditions as the Manager may determine (including as to, but not limited to, the payment of an Extension Fee).

The following illustrates the process of redemption of Units in the case of Participating Dealers.



## **7.5 Suspension of Creations and Redemptions**

The Manager may, at its discretion, after giving notice to the Trustee suspend the creation or issue of Units of a Sub-Fund, suspend the redemption of Units of a Sub-Fund and/or delay the payment of any monies in respect of any Redemption Application in the following circumstances:

- (a) during any period when trading on the SEHK is restricted or suspended;
- (b) during any period when a market on which an Index Security (that is a component of the relevant Underlying Index) has its primary listing, or the official clearing and settlement depository (if any) of such market, is closed;
- (c) during any period when dealing on a market on which an Index Security (that is a component of the relevant Underlying Index) has its primary listing is restricted or suspended;
- (d) during any period when, in the opinion of the Manager, settlement or clearing of Index Securities in the official clearing and settlement depository (if any) of such market is disrupted;

- (e) during any period when the determination of the Net Asset Value of the relevant Sub-Fund is suspended or if any circumstance specified in section “**10.2 Suspension of Determination of Net Asset Value**” below arises.

Upon declaration of the suspension by the Manager, the suspension shall take effect. During the suspension,

- (a) no Application shall be made by any of the Participating Dealers and in the event any Application is received in respect of any Dealing Day falling within such period of suspension (that has not been otherwise withdrawn), such Application shall be deemed as having been received immediately following the termination of the suspension;
- (b) no Units shall be created and issued or redeemed for the account of the relevant Sub-Fund.

The Manager shall notify the Commission if dealing in Units is suspended and publish a notice of suspension immediately following such suspension and, at least once a month during the period of suspension, on its website at [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup> or in such publications as the Manager decides.

A Participating Dealer may at any time after a suspension has been declared and before termination of such suspension withdraw an Application submitted prior to such suspension by notice in writing to the Manager and the Manager shall promptly notify the Trustee accordingly. If the Manager has not received any such notification of withdrawal of such Application before termination of such suspension, the Trustee shall, subject to and in accordance with the provisions of the Trust Deed, create and issue Units or redeem Units in respect of such Application and such Application shall be deemed to be received immediately following the termination of such suspension.

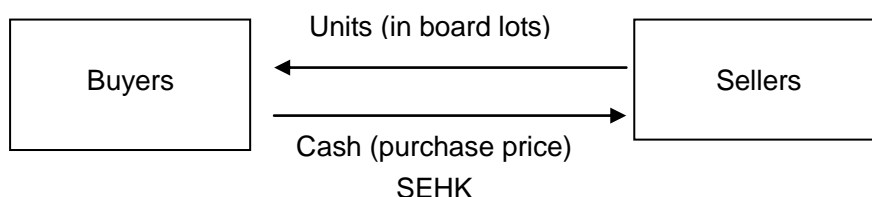
The suspension shall terminate (i) when the Manager, after giving notice to the Trustee, declares the suspension at an end, or (ii) in any event on the day following the first Business Day on which the condition giving rise to the suspension ceases to exist; and no other condition under which suspension is authorised under the Trust Deed exists.

## 8. CERTIFICATES

No certificates will be issued in respect of the Units of the Trust. All Units of the Trust will be registered in the name of the HKSCC Nominees Limited by the Registrar on the Register of Unitholders of the relevant Sub-Fund, which is the evidence of ownership of Units. Beneficial interest of retail investors in the Units of the Trust will be established through an account with a participant in CCASS.

## 9. TRADING OF UNITS ON THE SEHK (SECONDARY MARKET)

A Secondary Market Investor can buy or sell the Units of a Sub-Fund through his stockbroker on the SEHK on or after the Listing Date of that Sub-Fund. The diagram below illustrates the trading of Units on the SEHK:



**No money should be paid to any intermediary in Hong Kong which is not licensed for Type 1 regulated activity under Part V of the Securities and Futures Ordinance.**

Secondary Market Investors may place an order with a broker to sell their Units on the SEHK at any time during the trading day. To sell Units – or to buy new ones – such investor will need to use an intermediary such as a stockbroker or any of the share dealing services offered by banks or other financial advisers.

The trading price of Units of a Sub-Fund on the SEHK may differ from the Net Asset Value per Unit of that Sub-Fund and there can be no assurance that a liquid secondary market will exist for the Units.

Brokerage, stamp duty and other fees may be payable when selling (and purchasing) Units. Please refer to Part 2 of this Prospectus for details of the applicable brokerage, stamp duty and other fees.

There can be no guarantee that once the Units of a Sub-Fund are listed on the SEHK they will remain listed.

**10. VALUATION AND SUSPENSION**

**10.1 Determination of the Net Asset Value**

The Net Asset Value of the relevant Sub-Fund shall be determined at the Valuation Point on the relevant Valuation Day in respect of each Dealing Day for Units of the relevant class (or at such other time as the Manager, in consultation with the Trustee, may determine) by valuing the assets of the relevant Sub-Fund and deducting the liabilities attributable to the Sub-Fund in accordance with the terms of the Trust Deed.

A summary of the applicable key provisions of the Trust Deed relating to the determination of the value of investments in the Trust is set out as follows:

- (a) the value of any investment quoted, listed or normally dealt in on a securities market (other than an interest in a collective investment scheme) shall be calculated by reference to the price appearing to the Manager to be the last traded price or last bid price or midway between the latest available market dealing offered price or the latest available market dealing bid price or the official closing price on the securities market on which the investment is quoted, listed or normally dealt in for such amount of such investment as the Manager may consider in the circumstances to provide a fair criterion, PROVIDED THAT:
  - (i) if an investment is quoted, listed or normally dealt in on more than one securities market, the Manager shall adopt the price or, as the case may be, last traded price on the securities market which, in their opinion, provides the principal market for such investment;
  - (ii) in the case of any investment which is quoted, listed or normally dealt in on a securities market but in respect of which, for any reason, prices on that securities market may not be available at any relevant time, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager, or, if the Trustee so requires, by the Manager after consultation with the Trustee;
  - (iii) there shall be taken into account interest accrued on interest-bearing investments up to (and including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price;

and for the purpose of the foregoing provisions the Manager and the Trustee shall be entitled to use and to rely upon electronic transmitted information from such source or sources as they may from time to time think fit with regard to the pricing of the investments on any securities market and the prices derived therefrom shall be deemed to be the last traded prices;

- (b) the value of any investment which is not quoted, listed or normally dealt in on a securities market (other than an interest in a collective investment scheme) shall be the initial value thereof ascertained as hereinafter provided or the value thereof as assessed on the latest revaluation thereof made in accordance with the provisions hereinafter provided. For this purpose:
  - (i) the initial value of an unquoted investment shall be the amount expended out of the relevant Sub-Fund in the acquisition thereof (including in each case the amount of the stamp duties, commissions and other expenses incurred in the acquisition thereof and the vesting thereof in the Trustee for the purposes of the Trust Deed);
  - (ii) the Manager shall at such times or at such intervals as the Trustee may request, cause a revaluation to be made of any unquoted investment by a professional person approved by the Trustee as qualified to value such unquoted investment;

Notwithstanding the above, the Manager may determine to value on a straight line basis investments in debt instruments acquired as a discount to their face value.

- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (d) the value of each unit, share or other interest in any collective investment scheme shall be the last available net asset value per unit, share or other interest in such collective investment scheme or, shall be determined from time to time in such manner as the Manager shall determine;
- (e) notwithstanding the foregoing, the Manager may, with the consent of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations the Manager deems relevant, the Manager considers that such adjustment or use of such other method is required to reflect the fair value thereof. The Manager or the Trustee may also carry out regular independent valuation of the investments as it deems appropriate; and
- (f) the value of any investment (whether of a Security or cash) otherwise than in the Base Currency shall be converted into the Base Currency at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

The Trustee and the Manager may:

- (a) rely without verification on price data and/or other information provided through electronic price feeds, mechanised and/or electronic systems of price/valuation dissemination for the purposes of valuing any assets of the Sub-Fund and the prices provided by any such system shall be deemed to be the last traded prices;

- (b) accept as sufficient and conclusive evidence of the value of any asset of a Sub-Fund or the cost price or sale price thereof, any market quotation or certification by a calculation agent, administrator, broker, any professional person, firm or association qualified (in the opinion of the Manager to provide such a quotation provided that nothing hereunder shall impose an obligation on the Manager to obtain such a quotation or certification. If and to the extent that the Manager is responsible for or otherwise involved in the pricing of any of a Sub-Fund's assets, the Trustee may accept, use and rely on such prices without verification;
- (c) rely upon, and will not be responsible for the accuracy of, financial data furnished to it by third parties including the relevant calculation agent, automatic pricing services, brokers, market makers or intermediaries, (in the case where the Trustee is relying on this provision) the Manager or (in the case where the Manager is relying on this provision) the Trustee, and any administrator or valuations agent of other collective investments into which a Sub-Fund may invest; and
- (d) rely upon the established practice and rulings of any market and any committees and officials thereof on which any dealing in any assets of a Sub-Fund or other property is from time to time effected in determining what shall constitute a good delivery and any similar matters and such practice and rulings shall be conclusive and binding upon all persons;

and the Trustee and the Manager shall not be liable for any loss suffered by a Sub-Fund, any Unitholders or any other person in connection therewith except the Trustee and the Manager shall be respectively liable for losses which are due to fraud, wilful default or negligence on their part.

## **10.2 Suspension Of Determination Of Net Asset Value**

The Manager may, after giving notice to the Trustee, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or restriction or disruption or suspension of trading on any commodities market or securities market on which a substantial part of the investments of the Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or determining the Net Asset Value of the Sub-Fund or the Net Asset Value per Unit of the relevant class; or
- (b) for any other reason, the prices of a substantial part of the investments held or contracted for by the Manager for the account of the Sub-Fund cannot, in the reasonable opinion of the Manager, reasonably, promptly or fairly be ascertained; or
- (c) circumstances exist as a result of which, in the reasonable opinion of the Manager, it is not reasonably practicable to realize any investments held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the relevant class; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, any investments of that Sub-Fund or the subscription or redemption of Units of the relevant class is prohibited, restricted, delayed or cannot, in the reasonable opinion of the Manager, be carried out promptly at normal exchange rates; or
- (e) the relevant Underlying Index is not compiled or published; or



- (f) a breakdown occurs in any of the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Issue Price or Redemption Price of the relevant class, or when for any other reason the Net Asset Value of the relevant class cannot be ascertained in a prompt or accurate manner; or
- (g) the existence of any state of affairs as a result of which delivery of Index Securities comprised in a Basket or disposal of investments for the time being comprised in the Sub-Fund's assets cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders; or
- (h) the dealing of Units is suspended pursuant to any order or direction issued by the Commission; or
- (i) in the reasonable opinion of the Manager, such suspension is required by law or applicable legal process; or
- (j) the business operations of the Manager, the Trustee the Registrar and/or their respective delegates in relation to the operation of the Trust are substantially interrupted or closed as a result of arising from pestilence, acts of war, terrorism, insurrection, revolution civil unrest, riots, strikes or acts of God.

Upon declaration of the suspension by the Manager, the suspension shall take effect. During the suspension,

- (a) there shall be no determination of the Net Asset Value of the relevant Sub-Fund or the Issue Price or the Redemption Price of Units in the relevant class;
- (b) no Application shall be made by any of the Participating Dealers and in the event any Application is received in respect of any Dealing Day falling within such period of suspension (that has not been otherwise withdrawn), such Application shall be deemed as having been received immediately following the termination of the suspension;
- (c) the Manager shall be under no obligation to rebalance the Deposited Property of the Sub-Fund; and
- (d) no Units shall be created and issued or redeemed for the account of the Sub-Fund.

The suspension shall terminate (i) when the Manager, after giving notice to the Trustee, declares the suspension at an end, or (ii) in any event on the day following the first Business Day on which the condition giving rise to the suspension ceases to exist; and no other condition under which suspension is authorised under the Trust Deed exists.

The Manager shall notify the Commission if dealing in Units is suspended and publish a notice of suspension immediately following such suspension and, at least once a month during the period of suspension, on its website at [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup> or in such publications as the Manager decides.

A Participating Dealer may at any time after a suspension has been declared and before termination of such suspension withdraw an Application submitted prior to such suspension by notice in writing to the Manager and the Manager shall promptly notify the Trustee accordingly. If the Manager has not received any such notification of withdrawal of such Application before termination of such suspension, the Trustee shall, subject to and in accordance with the provisions of the Trust Deed, create and issue Units or redeem Units in respect of such Application and such Application shall be deemed to be received immediately following the termination of such suspension.

### **10.3 Suspension of Dealing in Units On The SEHK (Secondary Market)**

Dealing in Units on the SEHK, or trading on the SEHK generally, may at any time be suspended by the SEHK subject to any conditions imposed by the SEHK if the SEHK considers it necessary for the protection of investors or for the maintenance of an orderly market or in such other circumstances as the SEHK may consider appropriate.

## **11. DISTRIBUTION POLICY**

Please refer to Part 2 of this Prospectus for further details of the distribution policy in respect of each Sub-Fund (including the CSOP A50 ETF).

On a distribution from the Sub-Fund, the Trustee, in accordance with the instructions of the Manager, will allocate the amounts available for distribution between Unitholders and will pay such amounts to Unitholders.

## **12. FEES AND CHARGES**

The fees and charges currently applicable to the Trust and each Sub-Fund (including the CSOP A50 ETF) are set out below and in Part 2 of this Prospectus.

### **12.1 Management Fees and Servicing Fee**

Under the terms of the Trust Deed, the Manager may, on giving not less than one month's written notice to the relevant Unitholders, increase each of the rate of the management fee or servicing fee payable in respect of a Sub-Fund up to or towards its maximum rate of 2% per annum of the Net Asset Value of the Sub-Fund accrued daily and calculated as at each Dealing Day and payable monthly or such higher percentage as may be approved by the relevant Unitholders in accordance with the terms of the Trust Deed.

Please refer to Part 2 of this Prospectus for further details on the management fee or servicing fee payable in respect of each Sub-Fund (including the CSOP A50 ETF).

### **12.2 Trustee's and Registrar's Fee**

Under the terms of the Trust Deed, the Trustee may, on giving not less than one month's written notice to the relevant Unitholders, increase the rate of the Trustee's fee payable in respect of a Sub-Fund up to or towards the maximum rate of 1% per annum of the Net Asset Value of the Sub-Fund accrued daily and calculated as at each Dealing Day and payable monthly or such higher percentage as may be approved by the relevant Unitholders in accordance with the terms of the Trust Deed.

The Trustee is also entitled to a fee in its capacity as the Registrar.

Please refer to Part 2 of this Prospectus for further details on the Trustee's and Registrar's fee payable in respect of each Sub-Fund (including the CSOP A50 ETF).

The Trustee shall pay the fees of any custodian or sub-custodian to which it has appointed. The Trustee's fee is inclusive of fees payable to the Custodian (and its delegates).

In addition, the Trustee will be reimbursed for all of its out-of-pocket expenses incurred in connection with performing its services as Trustee and Registrar.

### **12.3 Service Agent's Fee**

The Service Agent will charge such fees and expenses as set out in Part 2 of this Prospectus.

#### **12.4 Other Charges and Expenses**

Each Sub-Fund will bear the costs set out in the Trust Deed, which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, the Manager, in consultation with the Trustee, shall determine how such costs are to be allocated. Such costs may include but are not limited to the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, transaction fees of the Trustee as may be agreed by the Manager in relation to transactions involving the whole or any part of the relevant Sub-Fund, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and realisation of any investment or other property or any cash, deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any of their Connected Person in the event of the Trustee or the Manager or such Connected Person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditors, the Registrar and Service Agent (if applicable), (c) fees charged by the Trustee in connection with valuing the assets of the Trust or any part thereof, calculating the issue and redemption prices of Units, (d) expenses in connection with the management and trusteeship of the Trust, (e) all legal charges incurred by the Manager and/or the Trustee in connection with the Trust, (f) out-of-pocket expenses incurred by the Trustee and/or the Manager wholly and exclusively in the performance of its duties (including, where appropriate, obtaining collateral, credit support or implementing other measures or arrangements in mitigating the counterparty risk or other exposure of the relevant Sub-Fund), (g) the costs and expenses incurred by the Manager and/or the Trustee in establishing the Trust and/or the relevant Sub-Fund and costs and expenses in connection with the initial issue of Units of each class (which expenses may be amortised by being written off against the Sub-Funds in proportion to their respective Net Asset Values in equal amounts (or such other proportions or method as the Manager and the Trustee may determine from time to time) over the first five financial years or such other period as the Manager after consultation with the Auditors shall determine, (h) the fees and expense of the Trustee which are agreed by the Manager in connection with time and resources incurred by the Trustee reviewing and producing documentation in connection with the operation of the relevant Sub-Fund (including filing of annual returns and other documents with any regulatory authority having jurisdiction over the Trust), (i) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (j) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (k) the costs and expenses of obtaining and maintaining a listing for the Units on any stock exchange or exchanges selected by the Manager and/or in obtaining and maintaining any approval or authorisation of the Trust or a Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing approval or authorisation, (l) costs and expenses charged by the Trustee in terminating the Trust or the relevant Sub-Fund and for providing any additional services as agreed by the Manager, (m) unless the Manager determines, bank charges incurred in making payments to Unitholders pursuant to the Trust Deed, (n) the fees of any guarantor agreed by the Manager (including the fee of the Trustee or any Connected Person of the Trustee acting as guarantor in relation to any Sub-Fund), (o) any licence fees and expenses payable to the owner of an index for the use of such index, (p) the fees and expenses of establishing, maintaining and operating any company wholly owned by the Trustee on behalf of any one or more Sub-Funds, (q) without prejudice to the generality of the foregoing, all costs incurred in publishing the Net Asset Value, the issue and redemption prices of Units, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees), the expenses of preparing and printing any Prospectus, and any other expenses, deemed by the Manager after consulting the Trustee, to have been incurred in compliance with or in connection with

any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts, (r) all other reasonable costs, charges and expenses which in the opinion of the Trustee and/or the Manager are properly incurred in the administration of the Trust pursuant to the performance of their respective duties, (s) all fees and expenses incurred in connection with the retirement or removal of the Manager, the Trustee, the Auditors or any entity providing services to the Trust, or the appointment of a new manager, a new trustee, new auditors or other new service providers providing services to the Trust, and (t) all such charges, costs, expenses and disbursements as under the general law the Trustee is entitled to charge to the Trust.

### **12.5 Establishment Costs**

The costs and expenses incurred by the Manager and the Trustee in establishing the Trust and the CSOP A50 ETF are estimated to be HK\$2.5 million; such costs shall be borne by the CSOP A50 ETF (unless otherwise determined by the Manager) and amortised over the first 5 financial years of the Trust (unless the Manager decides a shorter period is appropriate).

The costs of establishment of each subsequent Sub-Fund will be borne by the relevant Sub-Fund and amortised over such period as the Manager may determine and specified in Part 2 of this Prospectus.

## **13. TAXATION**

### **13.1 Hong Kong**

#### **13.1.1 The Sub-Fund**

The Sub-Fund will be exempted from Hong Kong profits tax in respect of its authorised activities in Hong Kong upon its authorisation as a collective investment schemes under section 104 of the Securities and Futures Ordinance.

#### **13.1.2 Unitholders**

Profits arising on the disposal / redemption of any Units will only be subject to profits tax for Unitholders carry on a trade or business in Hong Kong where the profits, arise from such trade or business in Hong Kong and are of revenue nature.

Distributions received by Unitholders from their investments in the Units would generally not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

#### **Stamp Duty**

Hong Kong stamp duty is payable on the delivery of Hong Kong stocks by an investor to the Sub-Fund as consideration for an allotment of Units, or by the Sub-Fund to an investor upon redemption of such Units will be remitted, subject to application, under Section 52 of the Stamp Duty Ordinance.

Other types of sales or purchases or transfer of Hong Kong stocks by the Sub-Fund will be liable to Hong Kong stamp duty of 0.1%, borne by each of the buyer and seller, of the higher of the consideration amount or market value.

No Hong Kong stamp duty is payable on the sales or purchases or transfer of the Units by the Unitholders if specific stamp duty remission is obtained. Application has been made to the relevant government bodies and the Manager anticipates approval will be given for remission of stamp duty payable in respect of the sales or purchase or transfer of Units immediately before the listing of the Units on the SEHK. However,

nominal stamp duty may still be payable on any instruments of transfer relating to transactions off the exchange in Units in a Sub-Fund.

### **13.2 The PRC**

A Sub-Fund that invests in the PRC may be subject to withholding and other taxes imposed in the PRC. For further details relating to PRC taxes and the associated risks, please refer to the risk factor headed "**PRC tax considerations**" under section "**4.1 Risk Factors relating to China**" in Part 1 of this Prospectus.

### **13.3 Other jurisdiction(s)**

Please refer to Part 2 of this Prospectus on taxation requirements in other jurisdiction(s) that may be applicable to a Sub-Fund.

### **13.4 General**

Investors should consult their professional financial advisers on the consequences to them of acquiring, holding, realizing, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences, stamping and denoting requirements and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances.

## **14. OTHER IMPORTANT INFORMATION**

### **14.1 Reports and Accounts**

The Trust's financial year end is 31 December in each year. The first financial year end of the Trust is 31 December 2012.

Unitholders will be notified of where they can obtain the printed and electronic copies of the latest audited accounts or the semi-annual unaudited interim reports once they are available (both published in English only). Such notices will be sent to Unitholders as soon as practicable and in any event within four months of the end of each financial year (starting the first financial year) in the case of audited accounts and within two months after 30 June in each year in the case of semi-annual unaudited interim reports. Once issued, such reports will be available in electronic copies from the website [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup>. The first audited accounts and the first semi-annual unaudited reports of the Trust will be for the financial year ended 31 December 2012 and for the half year period ended 30 June 2013 respectively.

Hard copies of such reports will be available upon request of Unitholders free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager.

### **14.2 Removal and Retirement of the Manager**

The Manager shall be subject to removal by not less than one (1) month's notice in writing given by the Trustee in any of the following events:-

- (a) if the Manager goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of its assets;
- (b) if for good and sufficient reason the Trustee acting in good faith is of the reasonable opinion and so states in writing to the Manager that a change of Manager is desirable in the interests of the Unitholders;

- (c) if the Unitholders of not less than 50% in value of the Units for the time being outstanding (for which purpose Units held or deemed to be held by the Manager shall not be regarded as being outstanding) deliver to the Trustee in writing a request that the Manager should retire; or
- (d) if the Commission withdraws its approval of the Manager as manager of the Trust.

The Manager shall have power to retire in favour of some other qualified manager in accordance with the provisions of the Trust Deed. In particular, the Manager shall give all Unitholders in the relevant Sub-Fund written notice of at least 60 days (or 30 days in the event of liquidation of the Trustee, or a material breach by the Trustee of its obligations under the Trust Deed), (or such other period as permitted by the Commission) in accordance with the provisions of the Trust Deed.

### **14.3 Removal and Retirement of the Trustee**

The Trustee shall be subject to removal by not less than one (1) month's notice in writing given by the Manager (or such shorter period of notice as the parties may agree). Notwithstanding the foregoing, the Manager may by notice remove the Trustee in any of the following events:

- (a) if the Trustee goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Manager) or if a receiver is appointed over any of its assets or if a judicial manager is appointed in respect of the Trustee (or any such analogous process occurs or any analogous person is appointed in respect of the Trustee);
- (b) if the Trustee ceases to carry on business;
- (c) if the Unitholders of not less than 50% in value of the Units for the time being outstanding (for which purpose Units held or deemed to be held by the Trustee shall not be regarded as being outstanding) shall deliver in writing a request that the Trustee should retire;
- (d) if the Commission withdraws its approval of the Trustee as trustee of the Trust; or
- (e) following a material breach of the Trustee's obligations under the Trust Deed which, if the breach is capable of remedy, the Trustee fails to remedy within 60 days of being specifically required in writing so to do by the Manager, and for good and sufficient reason the Manager acting in good faith is of the reasonable opinion and so states in writing to the Trustee that a change of Trustee is desirable and in the best interests of Unitholders as a whole.

Notwithstanding such notice, the Trustee shall not be removed or cease to act as such unless and until the Manager shall, subject to the prior approval of the Commission if the Sub-Fund is authorised pursuant to section 104 of the Securities and Futures Ordinance, have appointed a qualified corporation under any applicable law to be the trustee in place of the removed Trustee.

The Trustee shall be entitled to retire voluntarily. Subject to the prior written approval of the Commission, the Trustee may retire from office by giving not less than 60 days' written notice (or 30 days' written notice in the event of liquidation of the Manager, or a material breach by the Manager of its obligations under the Trust Deed), or such shorter period of notice as the Commission may approve, to the Manager. In the event of the Trustee desiring to retire the Manager shall find within 60 days (or, as the case may be, 30 days) from the date the Trustee notifies the Manager of such desire a new trustee who is a qualified corporation under any applicable law to act as trustee and

the Manager shall appoint such new trustee to be the Trustee in the place of the retiring Trustee in accordance with the provisions of the Trust Deed and subject to the prior approval of the Commission if the Sub-Fund is authorised pursuant to section 104 of the Securities and Futures Ordinance. For the avoidance of doubt, the Trustee shall only retire upon the appointment of a new Trustee and subject to the prior approval of the Commission.

**14.4 Potential Conflicts of Interest, Transactions with Connected Persons, Cash Rebates and Soft Commissions**

The Manager and the Trustee or their Connected Persons may, from time to time, act as manager, investment adviser, trustee or as custodian or in such other capacity in connection with or be otherwise involved in or with any other collective investment schemes separate and distinct from the Trust and the Sub-Funds, including those that have similar investment objectives to those of the Sub-Funds, or contract with or enter into financial, banking or other transaction with one another or with any investor of the Sub-Funds, or any company or body any of whose shares or securities form part of any Sub-Fund or may be interested in any such contract or transaction.

In addition:

- (a) The Manager or any of its Connected Person may purchase and sell investments for the account of a Sub-Fund as agent for such Sub-Fund.
- (b) The Trustee, the Manager and any of their Connected Persons may contract or enter into any financial, banking or other transaction with one another or with any Unitholder.
- (c) The Trustee or the Manager or any of their Connected Person may become the owner of Units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee or the Manager or the Connected Person.
- (d) The Trustee, the Manager and any of their Connected Persons may buy, hold and deal in Index Securities for their own account or for the account of their other customers (including Participating Dealers acting for themselves or for their clients) notwithstanding that Index Securities may be held as part of the Sub-Fund.
- (e) Any arrangements for the borrowing or deposit of any monies for the account of the Sub-Fund may be made with any of the Trustee, the Manager, any investment adviser or any Connected Person of any of them being a banker or other financial institution provided that such person shall charge or pay (as the case may be) interest or fees at a rate or amount no higher (in the case of a borrowing) or lower (in the case of a deposit) than the prevailing rates or amounts for transactions of a similar size and duration, in the same currency and with institutions of similar standing.

Each of the Manager, the Trustee and their respective Connected Persons shall be entitled to retain for its own use and benefit all fees and other monies payable in respect of any of the arrangements described above and shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Sub-Fund, any Unitholder or any other relevant party any fact or thing which comes to the notice of itself in the course of its rendering services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed. Each of the Manager, the Trustee and their respective Connected Persons shall not be liable to account to the Trust or any Sub-Fund or any investor of the Trust or the Sub-Fund for any profit or benefit made or derived thereby or in connection therewith (including in situations set out above). It is, therefore, possible that any of the Manager, the Trustee or their Connected

Persons may, in the course of business, have potential conflicts of interest with the Sub-Funds.

Each of the Manager and the Trustee or their Connected Persons will, at all times, have regard in such event to its obligations to the Sub-Funds and the investors and will endeavour to ensure that such conflicts are resolved fairly.

The Manager, the Trustee or their Connected Persons shall act in a reasonable and prudent manner when handling any potential conflict of interest situation and take into account the interest of Unitholders and clients.

The services of the Manager and the Trustee provided to the Sub-Funds are not deemed to be exclusive and the Manager and the Trustee shall be free to render similar services to others so long as their services hereunder are not impaired thereby and to retain for their own use and benefit all fees and other moneys payable thereby and the Manager and the Trustee shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust or the Sub-Funds any fact or thing which comes to the notice of the Manager or the Trustee in the course of the Manager or the Trustee rendering similar services to others or in the course of their business in any other capacity or in any manner whatsoever otherwise than in the course of carrying out their duties under the Trust Deed.

All transactions carried out by or on behalf of the Sub-Funds will be at arm's length in compliance with applicable laws and regulations. Any transactions between the Sub-Funds and the Manager or any of its Connected Persons as principal may only be made with the prior written consent of the Trustee. All such transactions shall be disclosed in the Sub-Fund's annual report.

The brokerage and other agency transactions for the account of the Sub-Funds may be executed through brokers or dealers connected to the Manager or Connected Persons of the Manager. However, for so long as a Sub-Fund is authorized by the Commission, the Manager shall ensure that it complies with the following requirements when transacting with brokers or dealers connected to the Manager or Connected Persons of the Manager, save to the extent permitted under the Code or any waiver obtained from the Commission:

- (a) such transactions are on arm's length terms;
- (b) the Manager has used due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) the transaction execution is consistent with the best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction shall not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager shall monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer will be disclosed in the relevant Sub-Fund's annual report.

Neither the Manager nor any of its Connected Persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

The Manager and any of its Connected Persons may effect transactions by or through the agency of another person with whom the Manager or any of its Connected Persons have an arrangement under which that party will from time to time provide to



or procure for the Manager or any of its Connected Persons, goods, services or other benefits, such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publication.

The Manager shall procure that no such contractual arrangements are entered into unless:

- (a) the nature of which is such that their provision are of demonstrable benefit to the Sub-Funds;
- (b) the transaction execution is consistent with best execution standards; and
- (c) brokerage rates are not in excess of customary institutional full-service brokerage rates.

No direct payment may be made to the Manager or any of its Connected Persons who undertake to place business with that party.

For the avoidance of doubt, such goods and services do not include travel accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the relevant Sub-Funds' annual report.

#### **14.5 Termination of the Trust or a Sub-Fund**

A Sub-Fund shall terminate upon the termination of the Trust. The Trust shall continue until it is terminated in one of the following ways set out below provided that the Trust will automatically terminate on the date falling 80 years after the date of the Trust Deed.

A summary of the circumstances under which the Trust may be terminated by the Trustee by notice in writing is set out as follows:

- (a) if the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee), become bankrupt or if a receiver is appointed over any of their assets and not discharged within ninety (90) days;
- (b) if in the reasonable opinion of the Trustee acting in good faith, the Manager shall be incapable of performing or shall in fact fail to perform its duties satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Trust into disrepute or to be harmful to the interests of the Unitholders;
- (c) if the Trust shall cease to be authorized pursuant to the Securities and Futures Ordinance or if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust;
- (d) if the Manager shall have ceased to be the Manager for whatever reason and, within a period of sixty (60) days or thirty (30) days (in the event of liquidation of the Trustee, or a material breach by the Trustee of its obligations under the Trust Deed) thereafter, no other qualified corporation shall have been appointed by the Trustee as a successor Manager;
- (e) if the Trustee shall have notified the Manager of its desire to retire as Trustee and the Manager shall fail to find a qualified corporation to act as a trustee in

place of the Trustee within sixty (60) days or thirty (30) days (in the event of liquidation of the Manager, or a material breach by the Manager of its obligations under the Trust Deed) (as the case may be) therefrom.

The circumstances under which the Trust and/or a Sub-Fund and/or any classes of Units relating to a Sub-Fund (as the case may be) may be terminated by the Manager in its absolute discretion by notice in writing include:

- (a) if on any date, in relation to the Trust, the aggregate Net Asset Value of all Units shall be less than RMB 100 million or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units of the relevant classes outstanding hereunder shall be less than RMB 100 million;
- (b) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Trust and/or the relevant Sub-Fund;
- (c) if the Trust and/or the relevant Sub-Fund shall cease to be authorized or otherwise officially approved pursuant to the Securities and Futures Ordinance or listed on the SEHK or other recognized securities markets;
- (d) if the Underlying Index of the relevant Sub-Fund is no longer available for benchmarking, unless the Manager determines (in consultation with the Trustee) that it is possible, feasible, practicable and in the best interests of the Unitholders to substitute another index for the Underlying Index; or
- (e) if the Trust and/or the relevant Sub-Fund ceases to have any Participating Dealer.

In cases of termination of the Trust or a Sub-Fund under the above circumstances, no less than one month's notice will be given to Unitholders.

#### **14.6 Trust Deed**

The Trust was established under Hong Kong law by a trust deed dated 25 July 2012 (as may be amended, modified or supplemented from time to time). All holders of Units are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

#### **14.7 Indemnification and Limitation of Liability**

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager and their relief from liability in certain circumstances.

The Trustee and the Manager benefit from various indemnities in the Trust Deed. Except as provided under the Trust Deed, the Trustee and the Manager shall be entitled to be indemnified out of, and have recourse to, the relevant Sub-Fund or the Trust generally, in respect of any liabilities, costs, claims or demands arising directly or indirectly from the proper performance of their duties with respect to the Trust. Nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from or indemnify them against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to them in respect of any negligence, fraud or wilful default of which they may be liable in relation to their duties.

Unitholders and intending applicants are advised to consult the terms of the Trust Deed for further details.

#### **14.8 Modification of Trust Deed**

Subject to the prior approval of the Commission if any Sub-Fund is authorised pursuant to section 104 of the Securities and Futures Ordinance, the Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any responsibility to the Unitholders and will not result in any increase in the amount of costs and charges payable out of the assets of the Trust or (ii) is necessary in order to comply with any fiscal, statutory or official requirement (whether or not having the force of law) or (iii) is made to correct a manifest error.

In all other cases modifications require the sanction of an extraordinary resolution of the Unitholders affected and prior approval of the Commission.

#### **14.9 Meetings of Unitholders**

The Trust Deed contains detailed provisions for meetings of Unitholders. Meetings may be convened by the Trustee, the Manager or the holders of at least 10 % in value of the Units in issue, on not less than 21 days' notice. Notice of meetings will be posted to Unitholders. Unitholders may appoint proxies, who need not themselves be Unitholders. The quorum for a meeting to pass an ordinary resolution will be Unitholders present in person or by proxy registered as holding not less than 10 % of the Units for the time being in issue. The quorum for a meeting to pass an extraordinary resolution will be Unitholders present in person or by proxy registered as holding not less than 25% of the Units for the time being in issue or, for an adjourned meeting, Unitholders present in person or by proxy whatever their number or the number of Units held by them. A meeting to pass an extraordinary resolution may be used to modify the terms of the Trust Deed, including increasing the maximum fees payable to the service providers, removing the Manager or terminating the Sub-Fund at any time. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum.

An ordinary resolution is a resolution proposed as such and passed by a majority of 50% of the total number of votes cast. An extraordinary resolution is a resolution proposed as such and passed by a majority of 75 % of the total number of votes cast.

The Trust Deed contains provisions for the holding of separate meetings of holders of Units in different Sub-Funds and different classes where only the interests of holders in a particular Sub-Fund or class are affected.

#### **14.10 Voting Rights**

The Trust Deed provides that at any meeting of Unitholders, every Unitholder who is present as aforesaid or by proxy shall have one vote for every Unit of which he is the holder.

Where a Unitholder is a recognised clearing house (within the meaning of the Securities and Futures Ordinance) (or is its nominee(s)), it may authorise such person or persons as it thinks fit to act as its representative(s) or proxy(ies) at any meetings of Unitholders or any meetings of any class of Unitholders provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Units in respect of which each such person is so authorised. The person so authorised will be deemed to have been duly authorised without the need of producing any documents of title, notarized authorisation and/or further evidence for substantiating the facts that it is duly authorised (save that the Trustee shall be entitled to request for evidence from such person to prove his/her identity) and will be entitled to exercise the same power on behalf of the recognized clearing house as that

clearing house or its nominee(s) could exercise if it were an individual Unitholder of the Trust. For the avoidance of doubt, a Unitholder who is a recognised clearing house (or its nominee(s)) shall exercise its voting rights in compliance with the applicable CCASS rules and/or operational procedures.

#### **14.11 Documents Available for Inspection**

Copies of the Trust Deed, Service Agreement, Participation Agreements, other material contracts, if any (as specified in Part 2 of this Prospectus) and the latest annual and semi-annual reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager. Please refer to section “**14.17 Complaints and Enquiries**” below for the address of the Manager.

Copies of the Trust Deed, Service Agreement, Participation Agreements and other material contracts, if any (as specified in Part 2 of this Prospectus) can be purchased from the Manager on payment of a reasonable fee. Copies of the latest annual and semi-annual reports (if any) are available upon request free of charge.

#### **14.12 Part XV of the Securities and Futures Ordinance**

Part XV of the Securities and Futures Ordinance sets out the Hong Kong disclosure of interests' regime applicable to Hong Kong listed companies. The regime does not apply to unit trusts that are listed on the SEHK. Consequently, Unitholders are not obliged to disclose their interest in a Sub-Fund.

#### **14.13 Anti-Money Laundering Regulations**

As part of the Trustee's, the Manager's and the Participating Dealers' responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee, a Sub-Fund, the Trust or the relevant Participating Dealer is subject, they may require a detailed verification of an investor's identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:

- (a) the applicant makes the payment from an account held in the applicant's name at a recognized financial institution; or
- (b) the application is made through a recognized intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognized as having sufficient anti-money laundering regulations.

Each of the Trustee, the Manager, the relevant Participating Dealer and their respective delegates or agents reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and/or the Manager and/or the relevant Participating Dealer and/or their respective delegates or agents may refuse to accept the application and the application moneys relating thereto. Neither the Manager, the Trustee, the relevant Participating Dealer nor their respective delegates or agents will be liable to any investor or applicant for any loss caused as a result of any delay or refusal to process applications and claims for payment of interest due to such delay or refusal will not be accepted.

Each of the Trustee, the Manager, the relevant Participating Dealer also reserves to refuse to make any redemption payment to a Unitholder or investor if the Trustee or the Manager or the relevant Participating Dealer or any of their respective delegates or agents suspect or are advised that the payment of redemption proceeds to such

Unitholder or investor might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Trust or the relevant Sub-Fund(s) or the Trustee or the Manager or the relevant Participating Dealer with any such laws or regulations in any applicable jurisdiction.

None of the Trustee, the Manager, the relevant Participating Dealer or their respective delegates or agents shall be liable to the relevant Unitholder or investor for any loss suffered by such party as a result of the rejection or delay of any subscription application or payment of redemption proceeds.

#### **14.14 Publication of Information Relating to the Sub-Funds**

The Manager will publish important news and information in respect of the Sub-Funds (including in respect of the Underlying Index), both in English and in Chinese languages, on its website [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup>, including:

- this Prospectus (as amended and supplemented from time to time);
- the latest Product Key Facts Statements of the Sub-Funds;
- the latest annual and semi-annual financial reports of the Sub-Funds in English;
- any public announcements made by a Sub-Fund, including information in relation to the relevant Sub-Fund and the Underlying Index, notices of the suspension of the calculation of Net Asset Value, changes in fees and charges and the suspension and resumption of trading of Units and notices relating to material changes to a Sub-Fund that may have an impact on its investors, including notices for material alterations or additions to this Prospectus or the Sub-Fund's Product Key Facts Statement or constitutive documents;
- the near real-time estimated Net Asset Value of a Sub-Fund during normal trading hours of the SEHK on each Dealing Day;
- the last closing Net Asset Value and Net Asset Value per Unit of a Sub-Fund;
- the composition of the relevant Sub-Fund (updated on a daily basis); and
- the latest list of Participating Dealers and market makers.

Although every effort is made to ensure information provided are accurate at the time of publication the Manager shall not accept any responsibility for any error or delay in calculation or in the publication or non-publication of prices which are beyond its control.

The Manager's website provides a hyperlink to SEHK's website [www.hkex.com.hk](http://www.hkex.com.hk), where information on the bid/ask price, queuing display, the previous day's closing Net Asset Value will be available.

Real-time updates about the relevant Underlying Index can be obtained through other financial data vendors. It is the investors' own responsibility to obtain additional and latest updated information about the Underlying Index (including without limitation, a description of the way in which the Underlying Index is calculated, any change in the composition of the Underlying Index, any change in the method for compiling and calculating the Underlying Index) via the website disclosed in the relevant Appendix for each Sub-Fund under Part 2 of the Prospectus.

Please refer to the section "**14.15 Website Information**" below for the warning and the disclaimer regarding information contained in such website.

#### **14.15 Website Information**

The offer of the Units is made solely on the basis of information contained in this Prospectus. All references in this Prospectus to other websites and sources where further information may be obtained are merely intended to assist investors to access

further information relating to the subject matter indicated and such information does not form part of this Prospectus. None of the Manager or the Trustee accepts any responsibility for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager, the website, [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup>. Investors should exercise an appropriate degree of caution when assessing the value of such information.

#### **14.16 Notices**

All notices and communications to the Manager and Trustee should be made in writing and sent to their respective addresses set out in the section headed "Parties" above.

#### **14.17 Complaints and Enquiries**

Investors may contact the complaint officer of the Manager if they have any complaints or enquiries in respect of the Trust or a Sub-Fund:

Address: Suite 2802, Two Exchange Square, 8 Connaught Place, Central,  
Hong Kong

Manager's Customer Service Hotline: +852 3406 5688

Depending on the subject matter of the complaints or enquiries, these will be dealt with either by the Manager directly, or referred to the relevant parties for further handling. The Manager will revert and address the investor's complaints and enquiries as soon as possible. The contact details of the Manager are set out in the paragraph above.

**PART 2**

**INFORMATION SPECIFIC TO SUB-FUNDS**

**APPENDIX 1**

**CSOP FTSE CHINA A50 ETF**

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

STOCK CODE: 82822

MANAGER

CSOP Asset Management Limited

LISTING AGENT

Oriental Patron Asia Limited

20 August 2012



# CSOP FTSE CHINA A50 ETF

Stock Code: 82822

## 1. KEY INFORMATION

### 1.1 General

Appendix 1 of Part 2 of this Prospectus sets out information specific to CSOP A50 ETF. For general information about the Trust and its Sub-Funds (including the CSOP A50 ETF), please refer to Part 1 of this Prospectus. Investors should read both Parts of the Prospectus before investing in CSOP A50 ETF. In particular, investors should consider the general risk factors set out in section “**4. General Risk Factors**” of Part 1 of this Prospectus and any specific risk factors set out in section “**11. Risk Factors relating to the CSOP A50 ETF**” of this Appendix 1 of Part 2 of this Prospectus, before investing in the CSOP A50 ETF.

### 1.2 Summary of Information

The following table sets out certain key information in respect of the CSOP A50 ETF, and should be read in conjunction with the full text of this Prospectus.

Investment Type	Exchange Traded Fund (“ <b>ETF</b> ”) authorized as a collective investment scheme by the Commission under Chapter 8.6 and Appendix I of the Code
Underlying Index	FTSE China A50 Index Inception Date: 13 December 2003 Number of constituents: 50 Base Currency of Index: RMB (CNY)
Type of Underlying Index:	A price return index which means that it does not include the reinvestment of dividends from the constituents that are net of withholding tax. The Underlying Index is denominated and quoted in RMB.
Investment Strategy	Full replication strategy. Please refer to section “ <b>3. Investment Objective and Strategy</b> ” of Appendix 1 of Part 2 of this Prospectus for further details.
Initial Issue Date	27 August 2012
Listing Date	28 August 2012
Exchange Listing	SEHK - Main Board
Stock Code	82822
Trading Board Lot Size	200 Units
Base Currency	Renminbi (CNH)
Trading Currency	Renminbi (CNH)
Dividend Policy	The Manager intends to distribute income to Unitholders annually (in December) having regard to the CSOP A50 ETF’s net income

		after fees and costs.
Application Unit size for Creation/Redemption (only by or through Participating Dealers)		Minimum 500,000 Units (or multiples thereof)
Method of Creation/ Redemption		Cash (RMB) only
Parties	Manager / RQFII Holder	CSOP Asset Management Limited
	Trustee and Registrar	HSBC Institutional Trust Services (Asia) Limited
	Adviser	China Southern Fund Management Co. Limited
	Listing Agent	Oriental Patron Asia Limited
	Custodian	The Hongkong and Shanghai Banking Corporation Limited
	PRC Custodian	HSBC Bank (China) Company Limited
	Initial Participating Dealer	Citigroup Global Markets Asia Limited UBS Securities Hong Kong Limited Credit Suisse Securities (Hong Kong) Limited <i>*please refer to the Manager's website set out below for the latest list</i>
	Initial Market Makers	Citigroup Global Markets Asia Limited UBS Securities Hong Kong Limited Credit Suisse Securities (Hong Kong) Limited <i>*please refer to the Manager's website set out below for the latest list</i>
	Service Agent	HK Conversion Agency Services Limited
Financial Year		Ending 31 December each year
Management Fee		Up to 2% of the Net Asset Value accrued daily and calculated as at each Dealing Day, with the current rate being 0.99% of the Net Asset Value accrued daily and calculated as at each Dealing Day.  One month's prior notice will be provided to investors if the management fee is increased up to the maximum rate.
Estimated total expense ratio*		1.15% per annum (including the management fee, the trustee's fee and other charges) of the Net Asset Value
Website		<a href="http://www.csopasset.com/etf">www.csopasset.com/etf</a> <sup>1</sup>

\* The estimated total expense ratio does not represent the estimated tracking error of CSOP A50 ETF.

### **1.3 Listing Agent of CSOP A50 ETF**

Oriental Patron Asia Limited has been appointed by the Manager as the Listing Agent for the CSOP A50 ETF. The Listing Agent is licensed by the Commission to carry on Types 1 (dealing in securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities in Hong Kong under the Securities and Futures Ordinance.

### **1.4 Custodian and PRC Custodian for CSOP A50 ETF**

The CSOP A50 ETF invests directly in China A-Shares using RQFII quotas of the Manager. The Hongkong and Shanghai Banking Corporation Limited has been appointed by the Trustee and the Manager as custodian (“**Custodian**”) to act through its delegate, the PRC Custodian and will be responsible for the safe custody of the CSOP A50 ETF’s assets acquired through the RQFII quota of the Manager within the PRC under the RQFII scheme in accordance with the RQFII Custody Agreement (as defined below).

According to the RQFII Custody Agreement, the Custodian is entitled to appoint its subsidiary or associates within the HSBC group of companies as delegate for the performance of its services under the RQFII Custody Agreement. As of the date of this Prospectus, the Custodian has appointed HSBC Bank (China) Company Limited (“**PRC Custodian**”) as the PRC Custodian. The PRC Custodian is incorporated in China and is a wholly-owned subsidiary of the Custodian. The PRC Custodian possesses the applicable qualification to provide custody services to RQFIIs.

According to the terms of the RQFII Custody Agreement, the Custodian shall remain responsible for any omission or wilful default of the PRC Custodian, as if no such appointment had been made.

The “RQFII Custody Agreement” is the custody agreement entered into between the Custodian, the PRC Custodian, the Manager and the Trustee, as amended from time to time.

Please refer to the section “**2.3 Trustee and Registrar**” in Part 1 of the Prospectus in regard to the extent of the Trustee’s responsibility for the acts or omissions of the PRC Custodian.

Neither the Custodian nor its delegate is responsible for the preparation of this Prospectus and they accept no responsibility or liability for the information contained here other than the description under this section “**1.4 The Custodian and PRC Custodian for CSOP A50 ETF**”.

### **1.5 Parent Company - Adviser**

Given the novelty and cross-border nature of the CSOP A50 ETF, the Manager may substantially tap into, the relevant infrastructure and expertise of its PRC parent company, China Southern Fund Management Co. Limited (“**CSF**”) to support its operation of the CSOP A50 ETF in Hong Kong.

CSF will act as adviser to the Manager and provide advice and background operational support to support the operation of the CSOP A50 ETF.

CSF will advise the Manager on major corporate actions relating to the Index Securities. CSF will also advise the Manager on cash management and cross-border money transfer amount. However, CSF will not exercise investment discretion in respect of the investments of the CSOP A50 ETF and the Manager retains discretionary powers in the management of the CSOP A50 ETF.

In addition, CSF will perform the valuation of the assets of the CSOP A50 ETF and provide trade matching services through automated systems.

The Manager will review and closely monitor the services performed by CSF so to ensure that they are carried out properly.

The Manager may perform any or all of the above functions on its own as and when it has determined that it would be appropriate for it to do so.

## **2. INITIAL OFFER AND DEALING**

### **2.1 The Initial Offer Period**

Units in the CSOP A50 ETF will initially be offered only to the Participating Dealer(s) from 9:00 a.m. (Hong Kong time) on 20 August 2012 to 11:00 a.m. (Hong Kong time) on 22 August 2012, unless otherwise extended by the Manager (the “**Initial Offer Period**”). The purpose of the Initial Offer Period is to enable the Participating Dealer(s) to apply for Units on their own account or on behalf of third party Primary Market Investors in accordance with the terms of the Trust Deed and the Operating Guidelines.

### **2.2 Extension of the Initial Offer Period**

If the Initial Offer Period is extended beyond 22 August 2012, dealings in the Units on the SEHK will commence four (4) Business Days following the close of the Initial Offer Period.

### **2.3 Exchange Listing and Trading**

Application has been made to the SEHK for listing of and permission to deal in Units in the CSOP A50 ETF.

Currently, Units are expected to be listed and dealt only on the SEHK and no application for listing or permission to deal on any other stock exchanges is being sought as at the date of this Prospectus. Application may be made in the future for a listing of Units on other stock exchanges subject to the applicable RQFII Regulations (as defined in section “**7. Renminbi Qualified Foreign Institutional Investor (RQFII)**” in Appendix 1 of Part 2 of this Prospectus.

If trading of the Units of the CSOP A50 ETF on the SEHK is suspended or trading generally on the SEHK is suspended, then there will be no secondary market dealing for those Units.

### **2.4 Buying and Selling of Units of CSOP A50 ETF on SEHK**

Dealings on the SEHK in Units of the CSOP A50 ETF issued after the applicable Initial Offer Period are expected to begin on the trading day after the Initial Issue Date.

A Secondary Market Investor can buy and sell the Units of the CSOP A50 on the SEHK through his stockbroker at any time the SEHK is open. Units of the CSOP A50 may be bought and sold in the Trading Board Lot Size (or the multiples thereof). The Trading Board Lot Size is currently 200 Units.

However, please note that transactions in the secondary market on the SEHK will occur at market prices which may vary throughout the day and may differ from the Net Asset Value per Unit of the CSOP A50 ETF due to market demand and supply, liquidity and scale of trading spread for the Units in the secondary market. As a result, the market price of the Units of the CSOP A50 ETF in the secondary market may be higher or lower than the Net Asset Value per Unit of the CSOP A50 ETF.

Please refer to section “**9. Trading of Units on the SEHK (Secondary Market)**” in Part 1 of this Prospectus for further information on buying and selling of Units on the SEHK.

## **2.5 Creation Applications and Redemption Applications by Participating Dealers**

The general terms and procedures relating to Creation Applications and Redemption Applications by the Participating Dealers are set out in section “**7. Creation and Redemption of Application Units**” of Part 1 of this Prospectus, which should be read in conjunction with the following specific terms and procedures which relate to the CSOP A50 ETF only.

The Manager currently only allows in-cash applications and in-cash redemptions for Units of the CSOP A50 ETF. Any application monies payable by and redemption proceeds payable to Participating Dealers will be in cash and in RMB.

The Application Unit size for CSOP A50 ETF is 500,000 Units. Creation Applications submitted in respect of Units other than in Application Unit size will not be accepted. The minimum subscription for the CSOP A50 ETF is one Application Unit.

### **2.5.1 Dealing Period**

The dealing period on each Dealing Day for a Creation Application or Redemption Application in respect of the CSOP A50 ETF commences at 9:00 a.m. (Hong Kong time) and ends at the Dealing Deadline at 11:00 a.m. (Hong Kong time), as may be revised by the Manager from time to time. Any Creation Application or Redemption Application received after the Dealing Deadline will be considered as received on the next Dealing Day unless otherwise determined by the Manager.

The cleared funds in respect of Creation Applications must be received by 12.30 p.m. on the relevant Dealing Day or such other time as may be agreed by the Trustee, the Manager and the relevant Participating Dealer.

### **2.5.2 Issue Price and Redemption Price**

In respect of each Creation Application during the Initial Offer Period, the Issue Price of a Unit of any class which is the subject of a Creation Application in relation to the CSOP A50 ETF shall be equal to one-thousandth (1/1000th) of the closing level of the Underlying Index on the trading day immediately preceding the Initial Offer Period or such other price as may be determined by the Manager in consultation with the Trustee.

After the Initial Issue Date, the Issue Price of a Unit of any class in the CSOP A50 ETF shall be the Net Asset Value per Unit of the relevant class calculated as at the Valuation Point in respect of the relevant Valuation Day rounded to the nearest fourth (4<sup>th</sup>) decimal place (with 0.00005 being rounded up).

The Redemption Price of Units of any class redeemed shall be the Net Asset Value per Unit of the relevant class calculated as at the Valuation Point of the relevant Valuation Day rounded to the nearest fourth (4<sup>th</sup>) decimal place (with 0.00005 being rounded up).

The benefit of any rounding adjustments will be retained by the CSOP A50 ETF.

The “**Valuation Day**” of the CSOP A50 ETF, coincides with, and shall mean, the Dealing Day of the CSOP A50 ETF or such other days as the Manager may determine.

The latest Net Asset Value of the Units will be available on the Manager’s website at [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup> or published in such other publications as the Manager decides.

### **2.5.3 Dealing Day**

In respect of the CSOP A50 ETF, “Dealing Day” means each Business Day.

### **2.5.4 Rejection of Creation of Applications relating to CSOP A50 ETF**

In addition to the circumstances set out in section “**7.3.5 Rejection of Creation Applications**” in Part 1 of this Prospectus, the Manager, acting reasonably and in good faith, has the absolute discretion to reject a Creation Application in relation to the CSOP A50 ETF, in any of the following circumstances:-

- (a) where the acceptance of the Creation Application will have a material adverse impact on the China A-Shares market; or
- (b) where the RQFII quotas obtained by the Manager as RQFII relating to the CSOP A50 ETF are reduced or cancelled or are not sufficient to meet the Creation Applications for the CSOP A50 ETF.

## **3. INVESTMENT OBJECTIVE AND STRATEGY**

### ***Investment Objective***

The investment objective of the CSOP A50 ETF is to provide investment results that, before deduction of fees and expenses, closely correspond to the performance of the Underlying Index, namely, FTSE China A50 Index. There is no assurance that the CSOP A50 ETF will achieve its investment objective.

### ***Investment Strategy***

In order to achieve the investment objective of the CSOP A50 ETF, the Manager will only adopt a full replication strategy by directly investing all, or substantially all, of the assets of CSOP A50 ETF in Index Securities constituting the Underlying Index in substantially the same weightings (i.e. proportions) as these Index Securities have in the Underlying Index, as set out in section “**17. The Underlying Index**” of this Appendix 1 to Part 2 of this Prospectus below. When an Index Security ceases to be a constituent of the Underlying Index, rebalancing occurs which involves, *inter alia*, selling the outgoing Index Security and using the proceeds to invest in the incoming Index Security.

Under normal circumstances, the CSOP A50 ETF will invest at least 95% of its assets in the Index Securities constituting the Underlying Index. The CSOP A50 ETF will not invest in Securities that are not Index Securities.

The Manager reviews the Index Securities held in the CSOP A50 ETF’s portfolio each Business Day. In order to minimise tracking error\*, it closely monitors factors such as any changes in the weighting of each Index Security in the Underlying Index, suspension, dividend distributions and the liquidity of the CSOP A50 ETF’s portfolio. The Manager will also conduct adjustment on the portfolio of the CSOP A50 ETF regularly, taking into account tracking error reports, the index methodology and any rebalance notification of the Underlying Index.

The CSOP A50 ETF will not invest in derivatives and structured deposits or products for investment or hedging purposes. Prior approval of the Commission will be sought and not less than one month’s prior notice will be given to the Unitholders of CSOP A50 ETF in the event the Manager wishes to invest in derivatives instruments (including structured products or instruments) for investment or hedging purposes.

Currently it is intended that the CSOP A50 ETF will directly obtain exposure to securities issued within the PRC through the Manager’s RQFII quotas granted by SAFE, as the Manager has obtained RQFII status in the PRC. For further details please refer to section “**7. Renminbi**

**Qualified Foreign Institutional Investor (RQFII)** in this Appendix 1 of Part 2 of this Prospectus.

Prior approval of the Commission will be sought and not less than one month's prior notice will be given to the Unitholders in the event the Manager wishes to adopt an investment strategy other than full replication strategy.

The investment strategy of the CSOP A50 ETF is subject to the investment and borrowing restrictions set out in Schedule 1.

*\* The Manager intends to limit the annual tracking error to 2% and the daily tracking difference to 0.1% without taking into account the provision of the capital gains tax.*

#### **4. BORROWING RESTRICTIONS**

The Manager may borrow up to 25% of the latest available Net Asset Value of CSOP A50 ETF to acquire investments, to redeem Units or to pay expenses relating to CSOP A50 ETF.

#### **5. DISTRIBUTION POLICY**

Net income earned by the CSOP A50 ETF will not be re-invested. The Manager intends to distribute income to Unitholders annually (in December) having regard to the CSOP A50 ETF's net income after fees and costs. The details of the distribution declaration dates, distribution amounts and ex-dividend payment dates will be published on the Manager's website [www.csopasset.com/etf](http://www.csopasset.com/etf)<sup>1</sup>. There can be no assurance that a distribution will be paid.

Distribution payment rates in respect of Units will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend or distribution policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions.

#### **6. PRC TAX PROVISIONS**

For further details relating to PRC taxes and the associated risks, please refer to the risk factor headed "**PRC tax considerations**" under section "**4.1 Risk Factors relating to China**" in Part 1 of this Prospectus.

The Manager will make provisions for any PRC taxes payable by the CSOP A50 ETF on the gross realised capital gains derived from the disposal of China A-Shares and unrealised capital gains, at a rate of 10%. The Manager may review the rate of tax provision from time to time, and may further assess on making an accounting estimate based on the likelihood of the CSOP A50 ETF enjoying the benefit from double tax treaty agreements between Hong Kong and the PRC for Hong Kong tax residents. The amount of actual provision will be disclosed in the accounts of the CSOP A50 ETF. Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. The tax provision may be excessive or inadequate to meet the actual tax liabilities: please refer to the risk factor headed "**PRC tax considerations**" under section "**4.1 Risk Factors relating to China**" in Part 1 of the Prospectus.

#### **7. RENMINBI QUALIFIED FOREIGN INSTITUTIONAL INVESTOR (RQFII)**

Under current regulations in the PRC, generally foreign investors can invest only in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC and have been granted quota(s) by the SAFE to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC's domestic securities markets.

The RQFII regime is governed by (a) the “Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies” (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) issued by the CSRC, the People’s Bank of China (“PBOC”) and the SAFE and effective from 16 December 2011; (b) the “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies”, Huifa 2011 No. 50 (國家外匯管理局關於基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點有關問題的通知, 匯發[2011]50號) issued by SAFE and effective from 20 December 2011; and (c) any other applicable regulations promulgated by the relevant authorities (collectively, the “RQFII Regulations”).

The CSOP A50 ETF will obtain exposure to securities issued within the PRC through the RQFII quotas of the Manager. The Manager has obtained RQFII status in the PRC and as of the date of this Prospectus, has been granted, on behalf of the CSOP A50 ETF, an initial RQFII quota of RMB5 billion. To the extent that the Manager has, on behalf of the CSOP A50 ETF, utilised its entire RQFII quota, the Manager may, subject to any applicable requirements, apply for an increase of the RQFII quota. On the other hand, the Manager will actively manage the RQFII quota obtained and may impose limits on Creation Applications as it considers appropriate. The Manager will notify the Participating Dealers through e-mail and telephone as and when it deems appropriate when it has substantially utilised its RQFII quota. Any increase of the RQFII quota will be announced on the website of the Manager.

The Custodian has been appointed by the Trustee and the Manager to hold (by itself or through its delegate) the assets of the CSOP A50 ETF in the PRC in accordance with the terms of the RQFII Custody Agreement. Securities including China A-Shares will be maintained by the Custodian’s delegate, the PRC Custodian pursuant to PRC regulations through securities account(s) with the China Securities Depository and Clearing Corporation Limited (“CSDCC”) in the joint names of the Manager (as the RQFII holder) and the CSOP A50 ETF. An RMB cash account(s) shall be established and maintained with the PRC Custodian in the joint names of the Manager (as the RQFII holder) and the CSOP A50 ETF. The PRC Custodian shall, in turn, have a cash clearing account with CSDCC for trade settlement according to applicable regulations.

Repatriations in RMB conducted by the Manager (as RQFII) on behalf of the CSOP A50 ETF are permitted daily and not subject to any repatriation restrictions, lock-up periods or prior approval from the SAFE.

There are specific risks associated with the RQFII regime and investors’ attention is drawn to the risk factors headed “**RQFII risk**” and “**PRC brokerage risk**” under section “**11.3 Risk relating to the RQFII regime**” below.

The Manager will assume dual roles as the Manager of the CSOP A50 ETF and the holder of the RQFII quota for the CSOP A50 ETF. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII.

The Manager has obtained an opinion from PRC legal counsel to the effect that, as a matter of PRC laws:

- (a) securities account(s) with the CSDCC and maintained by the PRC Custodian and RMB cash account(s) with the PRC Custodian (respectively, the "securities account(s)" and the "cash account(s)") have been opened in the joint names of the Manager (as the RQFII holder) and the CSOP A50 ETF and for the sole benefit and use of the CSOP A50 ETF in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (b) the assets held/credited in the securities account(s) (i) belong solely to the CSOP A50 ETF, and (ii) are segregated and independent from the proprietary assets of the



Manager (as the RQFII holder), the Custodian, the PRC Custodian and any qualified broker registered in the PRC ("**PRC Broker**") and from the assets of other clients of the Manager (as the RQFII holder), the Custodian, the PRC Custodian and any PRC Broker(s);

- (c) the assets held/credited in the cash account(s) (i) become an unsecured debt owing from the PRC Custodian to the CSOP A50 ETF, and (ii) are segregated and independent from the proprietary assets of the Manager (as the RQFII holder) and any PRC Broker(s), and from the assets of other clients of the Manager (as the RQFII holder) and any PRC Broker(s);
- (d) the Trustee, for and on behalf of the CSOP A50 ETF is the only entity which has a valid claim of ownership over the assets in the securities account(s) and the debt in the amount deposited in the cash account(s) of the CSOP A50 ETF;
- (e) if the Manager or any PRC Broker is liquidated, the assets contained in the securities account(s) and the cash account(s) of the CSOP A50 ETF will not form part of the liquidation assets of the Manager or such PRC Broker(s) in liquidation in the PRC; and
- (f) if the PRC Custodian is liquidated, (i) the assets contained in the securities account(s) of the CSOP A50 ETF will not form part of the liquidation assets of the PRC Custodian in liquidation in the PRC, and (ii) the assets contained in the cash account(s) of the CSOP A50 ETF will form part of the liquidation assets of the PRC Custodian in liquidation in the PRC and the CSOP A50 ETF will become an unsecured creditor for the amount deposited in the cash account(s).

Further, the Trustee has put in place proper arrangements to ensure that:

- (a) the Trustee takes into its custody or under its control the assets of the CSOP A50 ETF, including onshore PRC assets of the CSOP A50 ETF acquired by the CSOP A50 ETF through the Manager's RQFII quota and such PRC assets will be maintained by the PRC Custodian in electronic form via a securities account(s) with the CSDCC and cash held in cash account(s) with the PRC Custodian ("**Onshore PRC Assets**"), and holds the same in trust for the Unitholders;
- (b) cash and registrable assets of the CSOP A50 ETF, including Onshore PRC Assets are registered or held to the order of the Trustee; and
- (c) the Custodian and the PRC Custodian will look to the Trustee for instructions and solely act in accordance with such instructions as provided under the RQFII participation agreement between the Custodian, the PRC Custodian, the Manager and the Trustee, as amended from time to time ("**RQFII Participation Agreement**").

## **8. OVERVIEW OF THE OFFSHORE RMB MARKET**

### **What Led to RMB Internationalisation?**

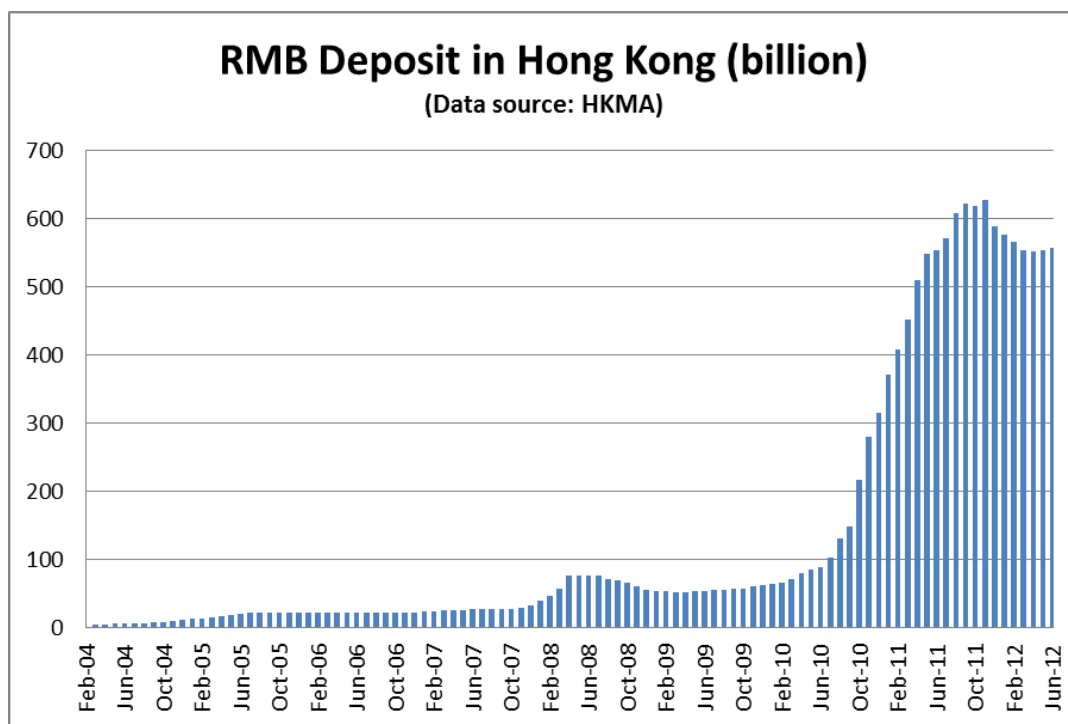
RMB is the lawful currency of the PRC. RMB is not currently a freely convertible currency and it is subject to foreign exchange control policies of and repatriation restrictions imposed by the PRC government. Since July 2005, the PRC government began to implement a controlled floating exchange rate system based on the supply and demand in the market and adjusted with reference to a portfolio of currencies. The exchange rate of RMB is no longer pegged to US dollars, resulting in a more flexible RMB exchange rate system.

Over the past two decades, the PRC's economy grew rapidly at an average annual rate of 10.5% in real terms. This enables it to overtake Japan to become the second largest economy and trading country in the world. The International Monetary Fund has projected that the PRC will contribute to more than one-third of global growth by 2015. As the PRC's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

## Accelerating the Pace of the RMB Internationalisation

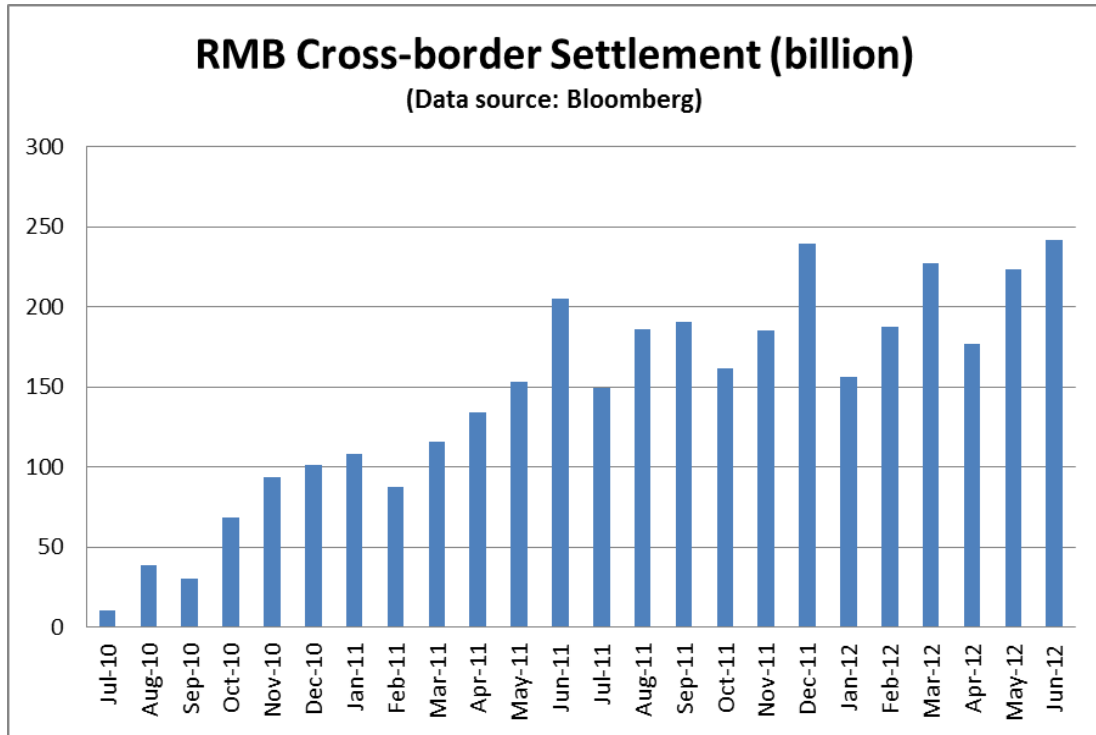
The PRC has been taking gradual steps to increase the use of RMB outside its borders by setting up various pilot programmes in Hong Kong and neighbouring areas in recent years. For instance, banks in Hong Kong were the first permitted to provide RMB deposits, exchange, remittance and credit card services to personal customers in 2004. Further relaxation occurred in 2007 when the authorities allowed PRC financial institutions to issue RMB bonds in Hong Kong, subject to regulatory approval. As of 31 May 2012, there are 134 banks in Hong Kong engaging in RMB business, with RMB deposits amounting to about RMB558 billion, as compare to just about RMB63 billion in the end of 2009. Up to 31 July 2012, there had been 130 offshore RMB bonds issues, with the total issuance size amounting to some RMB184 billion.

The chart below shows the trend of RMB deposits in Hong Kong.



The pace of RMB internationalisation has accelerated since 2009 when the PRC authorities permitted cross-border trade between Hong Kong / Macau and Shanghai/four Guangdong cities, and between ASEAN and Yunnan/Guangxi, to be settled in RMB. In June 2010, the arrangement was expanded to 20 provinces / municipalities in the PRC and to all countries / regions overseas.

The chart below shows the trend of RMB cross-border settlement.



In April 2012, the PRC widened the daily trading band of the RMB against the US dollar from 0.5% to 1%.

#### Onshore versus Offshore RMB Market

Following a series of policies introduced by the PRC authorities, a RMB market outside the PRC has gradually developed and started to expand rapidly since 2009. RMB traded outside the PRC is often referred as “offshore RMB” with the denotation “CNH”, which distinguishes it from the “onshore RMB” or “CNY”.

Both onshore and offshore RMB are the same currency but are traded in different markets. Since the two RMB markets operate independently where the flow between them is highly restricted, onshore and offshore RMB are traded at different rates and their movement may not be in the same direction. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The relative strength of onshore and offshore RMB may change significantly, and such change may occur within a very short period of time.

Notwithstanding that the offshore RMB market showed a meaningful growth during the past 2 years, it is still at an early stage of the development and is relatively sensitive to negative factors or market uncertainties. For instance, the value of offshore RMB had once dropped by 2% against the US dollars in the last week of September 2011 amidst the heavy selloff of the equities market. In general, the offshore RMB market is more volatile than the onshore one due to its relatively thin liquidity.

There have been talks on the potential convergence of the two RMB markets but that is believed to be driven by political decisions rather than just economics. It is widely expected that the onshore and offshore RMB markets would remain two segregated, but highly related, markets for the next few years.

#### Recent Measures

More measures to relax the conduct of offshore RMB business were announced in 2010. On 19 July 2010, interbank transfer of RMB funds was permitted for any purposes and corporate customers of banks in Hong Kong (including those not directly involved in trade with mainland

China) may exchange foreign currencies for RMB without limit. One month later, the PRC authorities announced the partial opening up of PRC's interbank bond market for foreign central banks, RMB clearing banks in Hong Kong and Macau and other foreign banks participating in the RMB offshore settlement programme.

The National Twelfth Five-Year Plan adopted in March 2011 explicitly supports the development of Hong Kong as an offshore RMB business centre. In August 2011, PRC Vice Premier Li Keqiang has announced more new initiatives during his visit, such as allowing investments on the PRC equity market through the RMB Qualified Foreign Institutional Investor scheme and the launch of an exchange-traded fund with Hong Kong stocks as the underlying constituents in the PRC. Also the PRC Government has given approval for the first non-financial PRC firm to issue RMB-denominated bonds in Hong Kong.

### **RMB Internationalisation is a Long-Term Goal**

Given the PRC's economic size and growing influence, RMB has the potential to become an international currency in the same ranks as US dollars and euro. But the PRC has to first accelerate the development of its financial markets and gradually make RMB fully convertible on the capital account. Although the internationalisation of RMB will bring benefits such as increasing political influence and reduced exchange rate risks, it also entails risks including rising volatility of RMB exchange rate.

The process of RMB internationalisation is a long and gradual one. It took US dollars many decades to replace the British pound to become a dominant reserve currency; it will also take time for RMB to gain importance in coming years, it will not be in a position to challenge the US dollar's main reserve currency status for some time to come.

## **9. A-SHARE MARKET IN THE PRC**

### **9.1 *The Stock Exchanges in Mainland China***

Mainland China has two stock exchanges, located in Shanghai and Shenzhen respectively. Shanghai Stock Exchange ("**SSE**") was established in November 26, 1990 and started trading in December 19 of the same year. Shenzhen Stock Exchange ("**SZSE**") was established in December 1, 1990. The two exchanges are under the direct management of the CSRC. Their main functions include: to provide premises and facilities for securities trading; to develop the business rules of the exchanges; to accept listing applications and arrange for the listing of securities; to organize and supervise securities trading; to regulate exchange members and listed companies; to manage and disclose market information.

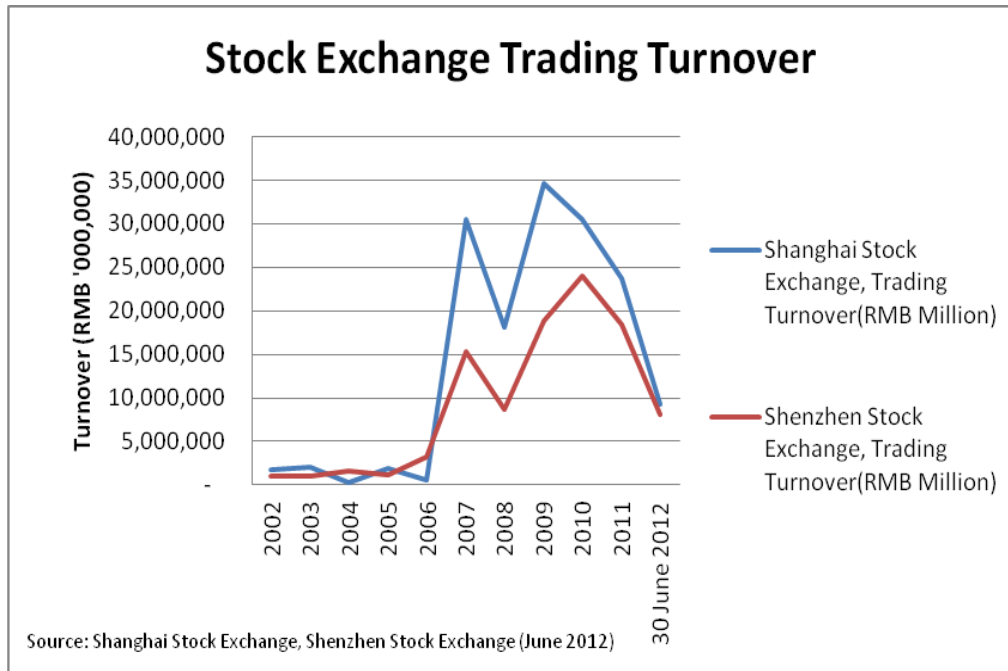
SSE adopts an electronic trading platform. The trading of all exchange-traded securities are required to be submitted to the exchange's matching engine which automatically matches orders based on price priority and time priority. The SSE's new trading system has a peak order processing capacity of 80,000 transactions per second. It has a bilateral transactions capacity of over 120 million which is equivalent to the size of daily turnover of RMB1.2 trillion by a single market. The system also has parallel scalability.

The SZSE, assuming the mission to build China's multi-level capital market system, has fully supported small and middle size enterprise development, and promoted the implementation of the national strategy of independent innovation. In May 2004, it officially launched the Small and Medium Enterprise ("**SME**") board; in January 2006, it started a pilot program for shares trading of non-listed companies of the Zhongguancun Science Park; it officially launched Growth Enterprises Market ("**GEM**") board in October 2009. After years of development, the SZSE has basically established a multi-level capital market system architecture consisting the above market boards and systems.

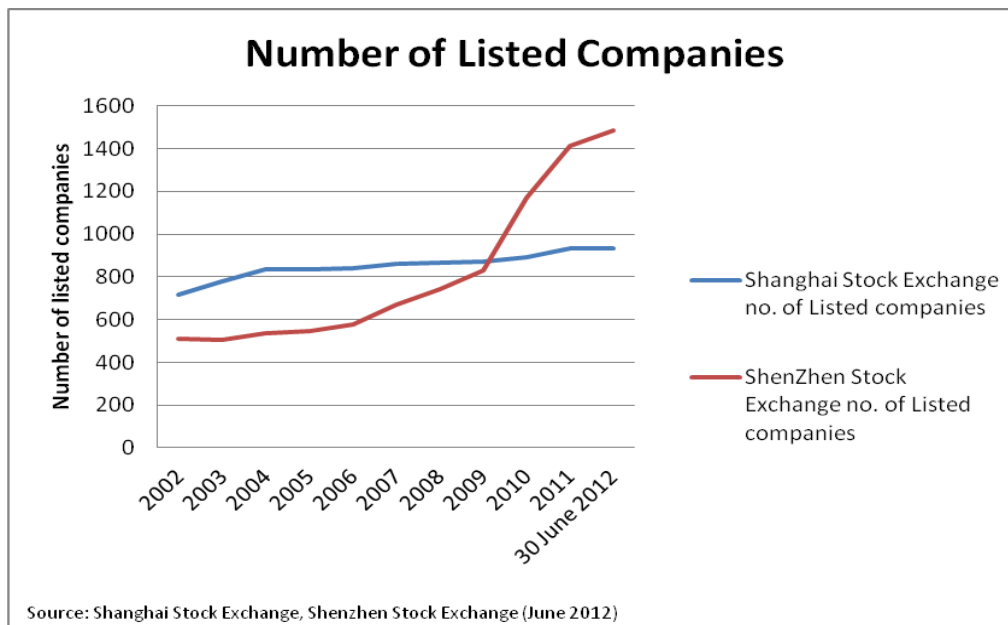
After years of sustained development, the two exchanges have made great

achievements in terms of products and quantity listed. Now the listed products include: A-Shares, B-Shares, open-ended funds, close-ended funds, exchange traded funds and bonds. As of 31 July 2012, the number of listed companies amounted to 2462, including 948 in Shanghai, 1514 in Shenzhen. The combined market capitalization of the two exchanges amounted to RMB21.3 trillion of which RMB16.5 trillion is free float. Currently, there are derivatives such as warrants and index futures and fixed income products listed on the SSE and SZSE.

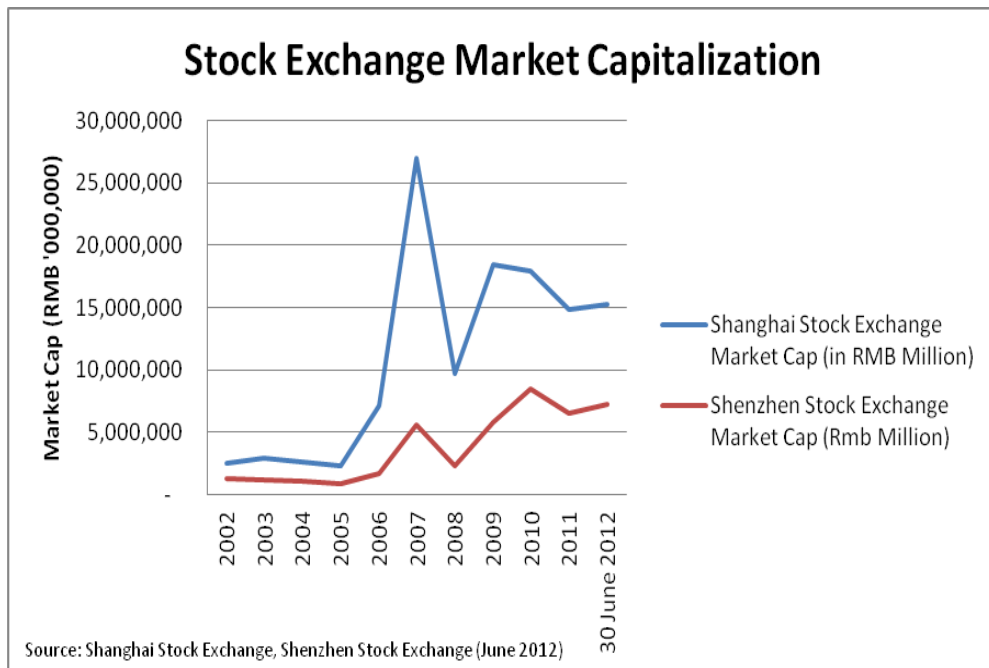
The chart below shows the annual trading turnover in the SSE and SZSE.



The chart below shows the number of listed company in the SSE and SZSE.



The chart below shows the market capitalisation of the SSE and SZSE.



The chart below shows the Shanghai and Shenzhen Composite Index Price and the Index Price of the Underlying Index in the past 10 years.



The regulatory agency of each stock exchange is its Stock Exchange Council. The Council consists of member directors and non-member directors. The highest decision-making body of an exchange is the General Assembly; however, the Council decides the business agenda of the exchange. The Council reports to the General Assembly, and assumes the following powers:

- To convene the General Assembly, report to the General Assembly, the implementation of the resolutions of the General Assembly;
- To enact, amend the relevant business rules of the Stock Exchange;
- To approve the general work plan submitted by its Chief Executive Officer, budget plan and the draft final accounts;
- To approve the membership admission and approve the sanction of members;
- To decide the stock exchange's internal structure;
- Other powers conferred by the General Assembly.

## 9.2 *Development of the Chinese A-Share market*

In the 80s of last century, with huge demand of public capital from the national economic development, the State started a pilot reform program adopting the joint-stock system, commencing first in Shanghai, Shenzhen and several other cities. After the Reform and Opening up China's first stock - "Shanghai Feile Audio-Visual" was born in November 1984.

Then in 1990, the SSE and SZSE officially opened, marking the official start of the rapid development of the Chinese stock market. The A-Share markets in SSE and SZSE commenced on 19 December 1990 and 1 December 1990 respectively. Initially, trading in A-Shares are restricted to domestic investors only while B-Shares are available to both domestic (since 2001) and foreign investors. However, after reforms were implemented in December 2002, foreign investors are now allowed (with limitations) to trade in A-shares under the QFII program which was launched in 2003 and the RQFII program which was launched in 2011.

After 20 years of development, the A-Share market has since grown to become influential on the global market. The participants in the A-Share market include retail investors, institutional investors and listed companies. The total market capitalization of the two exchanges combined as at 31 July 2012 has reached RMB21.3 trillion, and the floating market capitalization has reached RMB16.5 trillion, accounting for 7% of global market capitalization and ranking fourth. As of 31 July 2012, there were 2,440 A-Share companies listed on the SSE and SZSE.

## 9.3 *The major differences between the China A-Share market and the Hong Kong market*

The table below summarises the differences between the China A-Share market and the Hong Kong market:-

		SEHK	SSE	SZSE
(a)	Key Market Index	Hang Seng Index ("HSI")	SSE Composite Index	SZSE Composite Index
(b)	Trading Hours			
	<ul style="list-style-type: none"> <li>• Morning session</li> <li>• Afternoon session</li> </ul>	<ul style="list-style-type: none"> <li>• 9:30 a.m. – 12:00 p.m.</li> <li>• 13:00 – 16:00</li> </ul>	<ul style="list-style-type: none"> <li>• 9:30 a.m. – 11:30 a.m.</li> <li>• 13:00 – 15:00</li> </ul>	<ul style="list-style-type: none"> <li>• 9:30 a.m. – 11:30 a.m.</li> <li>• 13:00 – 15:00</li> </ul>
	A-Share market and Hong Kong market have different schedule of holidays.			
(c)	Pre-opening session / pre-order input /order matching times			
	<ul style="list-style-type: none"> <li>• Pre-opening session</li> </ul>	<ul style="list-style-type: none"> <li>• 9:00 a.m. to 9:15 a.m.</li> </ul>	<ul style="list-style-type: none"> <li>• 9:15 a.m. to 9:25 a.m.</li> </ul>	<ul style="list-style-type: none"> <li>• 9:15 a.m. to 9:25 a.m.</li> </ul>

	<ul style="list-style-type: none"> <li>Order matching times</li> <li>Close matching times</li> </ul>	<ul style="list-style-type: none"> <li>9:15 a.m. to 9:20 a.m. (pre-order matching period)</li> <li>9:20 a.m. to 9:28 a.m. (order matching period)</li> <li>9:28 a.m. to 9:30 a.m. (blocking period)</li> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>9:30 a.m. to 11:30 a.m. and 13:00 to 15:00</li> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>9:30 a.m. to 11:30 a.m. and 13:00 to 14:57</li> <li>14:57 to 15:00</li> </ul>
(d)	Trading Band Limits	No trading band limit	Daily trading band limits of 10%.  Where a listed company is under circumstances deemed abnormal by the SSE and SZSE, the short name of the listed company will be prefixed by "ST" and the daily up and down limit will be reduced to 5%.	
(e)	Trading Rule	The T+1 trading rule do not apply except that some stocks cannot be sold short in Hong Kong market.	The T+1 trading rule applies which means a stock bought on T day (i.e. trading day) can only be sold on T+1 (i.e. one business day after the relevant trading day), and no short-selling is allowed with a few exception (mostly ETFs) permitted by a pilot program.	
(f)	Round Lot	Stocks are generally traded at round lots and odd lots trading have to be facilitated by a broker through a special board.	Stocks can only be bought at the multiples of 100 shares but cannot be bought in odd lots. However, one can sell the shares of any number i.e. even in odd lots.	
(g)	Settlement cycle	The settlement period is 2 business days (i.e. T+2)	The settlement period is one business day (i.e. T+1)	
(h)	Earnings report disclosure requirement	A listed company has to disclose fiscal information twice a year. The annual reports have to be published within four months from the financial year end and the interim reports have to be published within three months of the end of the period it covers.	A listed company on the SSE and SZSE is required to prepare and disclose the annual report within four months as of the end date of each fiscal year, the half-year report within two months as of the end date of the first half of each fiscal year, and the quarterly report within one month as of the end of the first three months and the end of the first nine months of each fiscal year respectively. The time for disclosing the first-quarter report shall not be earlier than the time for disclosing the annual report of the previous year.  H-Share listed companies also disclose fiscal information quarterly for consistency with the corresponding A -Share schedules.	
(i)	Suspension	There is no requirement to suspend stocks for general assembly or important information disclosure.	Stocks in the A-Share market will be suspended for general assembly or important information disclosure.	



Investors should inform themselves of the risks associated with the differences between the China A-Share market and the Hong Kong market, as set out in the risk factor headed “**Risks relating to the differences between the Hong Kong and China stock markets**” in section “**11.1 China market / A-Share market risks**” in Appendix 1 of Part 2 of this Prospectus.

#### **9.4 Measures Adopted by the Manager to Address the Differences between the A-Share Market and the Hong Kong Market**

The Manager has adopted the following measures to address the difference between the China A-Share market and the Hong Kong market:

- (a) Trading hours: As regards the difference in trading hours, the shorter trading hours in the China A-Share market is not considered to present a major risk, as it is expected that there is a high level of liquidity for the Index Securities.
- (b) Trading days: There is a difference in trading days between the China A-Share market and the Hong Kong market. It should be noted that Applications are accepted only on a Business Day (normally a day on which both markets are open).

If the Hong Kong market is open while the China A-Share market is closed, Units of the CSOP A50 ETF will be traded in the Hong Kong market and the Manager will continue to publish information including prices in the manner set out in section “**14.14 Publication of Information Relating to the Sub-Funds**” in Part 1 of the Prospectus. If the China A-Share market is open while Hong Kong market is closed, the Manager will trade the Index Security when it is necessary, in order to limit the risk to investors. These trades will be properly settled even when the Hong Kong market is closed for holiday by the Trustee’s arrangements in place.

- (c) Trading band limits: The Manager will be prevented from trading certain Index Securities when they hit the “trading band limit”. If this happens on a particular trading day, the Manager will continue to trade that stock on the subsequent five trading days if necessary. However if the Manager is still unable to trade that Index Security on the fifth trading day after the original trading day due to the trading band limited, the Manager will settle the Index Security on the latest closing price and the CSOP A50 ETF will make up the trade whenever that Index Security resumes trading again. The Manager believes that the average impact to the CSOP A50 ETF in such situations is immaterial.

## **10. RMB PAYMENT AND ACCOUNT PROCEDURES**

Investors may apply for Units through Participating Dealers only if they have sufficient RMB to pay the application monies and the related fees. Investors should note that RMB is the only official currency of the PRC. While both onshore RMB (“**CNY**”) and offshore RMB (“**CNH**”) are the same currency, they are traded in different and separated markets. Since the two RMB markets operate independently where the flow between them is highly restricted, CNY and CNH are traded at different rates and their movement may not be in the same direction. Although there is a significant amount of RMB held offshore (i.e. outside the PRC), CNH cannot be freely remitted into the PRC and is subject to certain restrictions, and vice versa. As such whilst CNH and CNY are both the same currency, certain special restrictions do apply to RMB outside the PRC. The liquidity and trading price of the CSOP A50 ETF may be adversely affected by the limited availability of, and restrictions applicable to, RMB outside the PRC.

Application monies from Participating Dealers to the CSOP A50 ETF will be paid in CNH. Accordingly a Participating Dealer may require an investor (as its client) to pay CNH to it. (Payment details will be set out in the relevant Participating Dealer’s documentation such as the application form for its clients.) As such, an investor may need to have opened a bank account (for settlement) and a securities dealing account if a Participating Dealer is to subscribe for Units on his behalf as such investor will need to have accumulated sufficient

CNH to pay at least the aggregate Issue Price and related costs, to the Participating Dealer or if an application to the Participating Dealer is not successful or is successful only in part, the whole or appropriate portion of the monies paid will need to be returned to such investor by the Participating Dealer by crediting such amount into such investor's CNH bank account. Similarly, if investors wish to buy and sell Units in the secondary market on the SEHK, they may need to open a securities dealing account with their broker. Investors will need to check with the relevant Participating Dealer and/or their broker for payment details and account procedures.

If any investors wish to buy or sell Units on the secondary market, they should contact their brokers and they are reminded to confirm with their brokers their readiness for dealing and/or clearing transactions in RMB securities and other relevant information published by the SEHK regarding readiness of its participants for dealing in RMB securities from time to time. CCASS Investor Participants who wish to settle the payment in relation to their trades in the Units using their CCASS Investor Participant account should make sure that they have set up an RMB designated bank account with CCASS.

Investors intending to purchase Units from the secondary market should consult their stockbrokers as to the RMB funding requirement and settlement method for such purchase. Investors may need to open and maintain securities dealing accounts with the stockbroker first before any dealing in Units can be effected.

Investors should ensure they have sufficient CNH to settle the trades. When investors open the RMB bank accounts for settling RMB payment, they should note that under the current regulations, the daily maximum exchange limit for RMB applicable to Hong Kong residents is RMB20,000 per individual. Investors should consult the banks for the account opening procedures as well as terms and conditions of the RMB bank account. Some banks may impose restrictions on their RMB cheque account and fund transfer to third party account. For non-bank financial institutions (e.g. brokers), however, such restriction will not be applicable and investors should consult their brokers as to the currency exchange service arrangement.

The transaction costs of dealings in the Units on the SEHK include the trading fee payable to HKEx and Commission's transaction levy. All these secondary trading related fees and charges will be collected in Hong Kong dollars and calculated based on an exchange rate as determined by the Hong Kong Monetary Authority on the date of the trade which will be published on the HKEx website by 11:00 a.m. on each trading day.

Investors should consult their own brokers or custodians as to how and in what currency the trading related fees and charges and brokerage commission should be paid by the investors.

The Renminbi Equity Trading Support Facility (the "TSF") was launched on 24 October 2011 by the HKEx to provide a facility to enable investors who wish to buy RMB-traded shares (RMB shares) in the secondary market with Hong Kong dollars if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. The coverage of TSF has been extended to equity-related exchange traded funds and real estate investment trusts traded in RMB with effect from 6 August 2012. As such, the TSF is currently available to investors who wish to invest in the CSOP A50 ETF. For further details on the TSF, please refer to the website of HKEx at [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/tsf/tsf.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/tsf/tsf.htm). Investors should consult their advisers if they have any query on the TSF.

Where payment is to be made by cheque, investors are advised to consult the bank at which their respective RMB bank accounts are opened in advance whether there are any specific requirements in relation to the issue of RMB cheques. In particular, investors should note that some banks have imposed an internal limit (usually RMB80,000) on the balance of RMB cheque account of their clients or the amount of cheques that their clients can issue in a day and such limit may affect an investor's arrangement of funding for an application (through a Participating Dealer) for Units.

When an individual investor who is a Hong Kong resident opens an RMB bank account or settle RMB payments, he or she will be subject to a number of restrictions, including:

- (a) the existing permitted conversions in relation to personal customers are up to RMB20,000 conducted through RMB bank accounts per person per day or up to RMB20,000 per transaction per person in bank notes for walk-in personal customers; and
- (b) the daily maximum remittance amount to the PRC is RMB80,000 and a remittance service is only available to an RMB deposit account-holder who remits from his or her RMB deposit account to the PRC and provided that the account name of the account in the PRC is identical with that of the RMB bank account with the bank in Hong Kong.

On the other hand, an individual investor who is a non-Hong Kong resident may open an RMB bank account in Hong Kong and may exchange other currencies for RMB without any limit. However, non-Hong Kong residents may not remit RMB to the PRC unless approval is obtained pursuant to PRC rules and regulations.

Please refer to section “**11.2 Renminbi related risks**” of Appendix 1 of Part 2 of this Prospectus on risks associated with Renminbi.

## **11. RISK FACTORS RELATING TO THE CSOP A50 ETF**

In addition to the general risk factors common to all Sub-Funds set out in section “**4. General Risk Factors**” in Part 1 of this Prospectus, investors should also consider the specific risks associated with investing in the CSOP A50 ETF including those set out below. The following statements are intended to be summaries of some of those risks. They are by no means exhaustive and they do not offer advice on the suitability of investing in the CSOP A50 ETF. Investors should carefully consider the risk factors described below together with the other relevant information included in this Prospectus before deciding whether to invest in Units of the CSOP A50 ETF. The Commission’s authorisation is not a recommendation or endorsement of a product nor does it guarantee the commercial merits of a product or its performance. It does not mean the product is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

### **11.1 China market / A-Share market risks**

China market / Single country investment. Insofar as the CSOP A50 ETF invests substantially in securities issued in mainland China, it will be subject to risks inherent in the China market and additional concentration risks. Please refer to the risk factors under section “**4.1 Risk Factors relating to China**” and section “**4.2 Investment risks**” under headings “**Restricted markets risk**”, “**Emerging Market Risk**” and “**Single country risk**” in Part 1 of this Prospectus.

Risks relating to dependence upon trading on A-Share market. The existence of a liquid trading market for A-Shares may depend on whether there is supply of, and demand for, such A-Shares. The price at which the Index Securities may be purchased or sold by the CSOP A50 ETF and the Net Asset Value of the CSOP A50 ETF may be adversely affected if trading markets for A-Shares are limited or absent. Investors should note that the SZSE and the SSE on which A-Shares are traded are undergoing development and the market capitalisation of, and trading volumes on, those stock exchanges are lower than those in more developed markets. The A-Share market may be more volatile and unstable (for examples due to the risk of suspension of a particular stock or government intervention) than those in more developed markets. A Participating Dealer may not be able to create and redeem Units if any Index Securities are not available. Market volatility and settlement difficulties in the A-Share markets may also result in significant fluctuations in the prices of the Index Securities traded on such markets and thereby may affect the value of the CSOP A50 ETF.

Risks relating to suspension of the A-Share market. Securities exchanges in China typically have the right to suspend or limit trading in any security traded on the

relevant exchange; a suspension will render it impossible for the Manager to liquidate positions and can thereby expose the CSOP A50 ETF to losses. Under such circumstances, while creation/redemption of the CSOP A50 ETF's Units may be suspended, subject to the Manager's discretion, the trading of the CSOP A50 ETF on the SEHK may or may not be suspended. If some of the A-Shares comprising the Underlying Index are suspended, it may be difficult for the Manager to determine the Net Asset Value of the CSOP A50 ETF. Where a significant number of the A-Shares comprising the Underlying Index are suspended, the Manager may determine to suspend the creation and redemption of Units of the CSOP A50 ETF, and/or delay the payment of any monies in respect of any Redemption Application. If the trading of the CSOP A50 ETF on the SEHK continues when the A-Share market is suspended, the trading price of the CSOP A50 ETF may deviate away from the Net Asset Value.

As a result of the trading band limits imposed by the stock exchanges in China on A-Shares, it may not be possible for Participating Dealers to create and/or redeem Units on a Business Day, because Index Securities may not be available if the trading band limit has been exceeded for such Index Securities or it is impossible to liquidate positions. This may lead to higher tracking error and may expose the CSOP A50 ETF to losses. Further, the price of the Units of the CSOP A50 ETF may be traded at a premium or discount to its Net Asset Value. The Manager has put in place measures to tackle the trading band limit as disclosed under section "**9.4 Measures Adopted by the Manager to Address the Differences between the A-Share Market and the Hong Kong Market**" in this Appendix 1 of Part 2 of this Prospectus.

Risks relating to the differences between the Hong Kong and China stock markets. As the SZSE and the SSE may be open when Units in the CSOP A50 ETF are not priced, the value of the Index Securities in the CSOP A50 ETF's portfolio may change on days when investors will not be able to purchase or sell the CSOP A50 ETF's Units. Furthermore, the market prices of Index Securities listed on the above stock exchanges may not be available during part of or all of the SEHK trading sessions due to trading hour differences which may result in Units of the CSOP A50 ETF being traded at a premium or discount to its Net Asset Value.

In addition, differences in trading hours between the SSE and SZSE and the SEHK may increase the level of premium/discount of the price of Units of the CSOP A50 ETF to its Net Asset Value because if the SSE and/or SZSE is closed while the SEHK is open, the Underlying Index level may not be available. The prices quoted by the market maker would therefore be adjusted to take into account any accrued market risk that arises from such unavailability of the Underlying Index level and as a result, the level of premium or discount of the Unit price of the CSOP A50 ETF to its Net Asset Value may be higher.

There are no trading band limits in Hong Kong. However, trading band limits are imposed by the stock exchanges in China on A-Shares, where trading in any A-share security on the relevant stock exchange may be suspended if the trading price of the security has increased or decreased to the extent beyond the trading band limit during the day. Any dealing suspension of an A-Share security will render it impossible for the CSOP A50 ETF to acquire the Index Security or liquidate positions to reflect creation/redemption of the Units. This may result in higher tracking error and may expose the CSOP A50 ETF to losses. Units of the CSOP A50 ETF may also be traded at a significant premium or discount to its Net Asset Value.

## **11.2 Renminbi related risks**

Renminbi currency risk. RMB is currently not a freely convertible currency as it is subject to foreign exchange control and fiscal policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the CSOP A50 ETF's or the investors' position may be adversely affected. Please refer to the risk factor headed "**Renminbi Exchange Risk**" under section "**4.1 Risk Factors relating to China**" in Part 1 of the Prospectus.

Primary market investors must subscribe for Units of the CSOP A50 ETF and will receive redemption proceeds in RMB. There is no assurance that RMB will not be subject to devaluation, in which case the value of their investments will be adversely affected.

Offshore RMB Market risk. The onshore RMB (“**CNY**”) is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in the PRC (“**Onshore RMB Market**”). Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC (“**Offshore RMB Market**”). Since June 2010, the offshore RMB (“**CNH**”) is traded officially, regulated jointly by the Hong Kong Monetary Authority and the PBOC. As a result of the controls on cross-border transfers of Renminbi between Hong Kong and China, the Onshore RMB Market and the Offshore RMB Market are, to an extent, segregated, and each market may be subject to different regulatory requirements that are applicable to the Renminbi. The CNY may therefore trade at a different foreign exchange rate compared to the CNH. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The CSOP A50 ETF’s investments may potentially be exposed to both the CNY and the CNH, and the CSOP A50 ETF may consequently be exposed to greater foreign exchange risks and/or higher costs of investment (for example, when converting other currencies to the Renminbi at the CNH rate of exchange).

However, the current size of RMB-denominated financial assets outside the PRC is limited. At the end of May 2012, the total amount of RMB (CNH) deposits held by institutions authorised to engage in RMB banking business in Hong Kong amounted to approximately RMB554 billion. In addition, participating authorised institutions are required by the Hong Kong Monetary Authority to maintain a total amount of RMB assets (in the form of, inter alia, cash and the institution’s settlement account balance with the Renminbi clearing bank, holding of RMB sovereign bonds issued in Hong Kong by the PRC Ministry of Finance and bond investment through the PRC interbank bond market) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi clearing bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers that are Hong Kong residents of up to RMB20,000 per person per day. The Renminbi clearing bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions.

Although it is expected that the Offshore RMB Market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC laws and regulations will not be promulgated, terminated or amended in the future which will have the effect of restricting availability of RMB offshore. The limited availability of RMB outside the PRC may affect the liquidity of the CSOP A50 ETF. To the extent the Manager is required to source RMB in the offshore market, there is no assurance that it will be able to source such RMB on satisfactory terms, if at all.

Offshore RMB (“**CNH**”) Remittance Risk. RMB is not freely convertible at present. The PRC government continues to regulate conversion between RMB and foreign currencies despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents

a current account activity. The pilot scheme was extended in June 2010 to cover 20 provinces and municipalities in the PRC and to make RMB trade and other current account item settlement available in all countries worldwide. On 25 February 2011, the Ministry of Commerce (“**MOFCOM**”) promulgated the Circular on Issues concerning Foreign Investment Management (商務部關於外商投資管理工作有關問題的通知) (the “**MOFCOM Circular**”). The MOFCOM Circular states that if a foreign investor intends to make investments in the PRC (whether by way of establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise or providing loan facilities) with RMB that it has generated from cross-border trade settlement or that is lawfully obtained by it outside the PRC, MOFCOM's prior written consent is required. While the MOFCOM Circular expressly sets out the requirement of obtaining MOFCOM's prior written consent for remittance of RMB back in the PRC by a foreign investor, the foreign investor may also be required to obtain approvals from other PRC regulatory authorities, such as the PBOC and SAFE, for transactions under capital account items. As the PBOC and SAFE have not promulgated any specific PRC regulation on the remittance of RMB into the PRC for settlement of capital account items, foreign investors may only remit offshore RMB into the PRC for capital account purposes such as shareholders' loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case-by-case basis. There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 (as extended in June 2010) will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of RMB into or outside the PRC. Such an event could have a severe adverse effect on the operations of the CSOP A50 ETF, including limiting the ability of the CSOP A50 ETF to redeem and pay the redemption proceeds in RMB and the ability of Participating Dealers to create or redeem in cash and so to settle in RMB to their underlying clients. In addition, such restrictions could cause Units to trade on the SEHK at a significant discount to the Net Asset Value per Unit.

Currently the Bank of China (Hong Kong) Limited is the only clearing bank for offshore RMB in Hong Kong. A clearing bank is an offshore bank that can obtain RMB funding from the PBOC to square the net RMB positions of other participating banks. In February 2004, Bank of China (Hong Kong) Limited launched its RMB clearing services following its appointment by the PBOC. Remittance of RMB funds into China may be dependent on the operational systems developed by the Bank of China (Hong Kong) Limited for such purposes, and there is no assurance that there will not be delays in remittance.

### **11.3 Risks relating to the RQFII regime**

**RQFII risk.** The CSOP A50 ETF is not a RQFII but may obtain access to China A-Shares, or other permissible investments directly using RQFII quotas of a RQFII. The CSOP A50 ETF may invest directly in RQFII eligible securities investment via the RQFII status of the Manager. As of the date of this Prospectus, the RQFII quotas obtained by the Manager as RQFII relating to the CSOP A50 ETF amount to RMB5 billion, and all of which is expected to be allocated to the CSOP A50 ETF.

Investors should note that RQFII status could be suspended or revoked, which may have an adverse effect on the CSOP A50 ETF's performance as the CSOP A50 ETF may be required to dispose of its securities holdings. In addition, certain restrictions imposed by the Chinese government on RQFIIs may have an adverse effect on the CSOP A50 ETF's liquidity and performance.

SAFE regulates and monitors the repatriation of funds out of the PRC by the RQFII pursuant to its “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies”, Huifa 2011 No. 50 (國家外匯管理局關於基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點有關問題

的通知， 匯發【2011】50 號) (the “**RQFII Measures**”). Repatriations by RQFIIs in respect of an open-ended RQFII fund (such as the CSOP A50 ETF) conducted in RMB are currently permitted daily and are not subject to repatriation restrictions or prior approval from the SAFE, although authenticity and compliance reviews will be conducted by the PRC Custodian, and monthly reports on remittances and repatriations will be submitted to SAFE by the PRC Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Further, such changes to the PRC rules and regulations may take effect retrospectively. Any restrictions on repatriation of the invested capital and net profits may impact on the CSOP A50 ETF’s ability to meet redemption requests from the Unitholders. Furthermore, as the Custodian’s or the PRC Custodian’s review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the Custodian or the PRC Custodian in case of non-compliance with the RQFII Regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable, and within 3 Business Days, and after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager’s control.

RQFII quotas are generally granted to a RQFII though an amount of RMB5 billion has been specifically granted to the CSOP A50 ETF. The rules and restrictions under RQFII Regulations generally apply to the RQFII as a whole and not simply to the investments made by the CSOP A50 ETF. It is provided in the RQFII Measures that the size of the quota may be reduced or cancelled by the SAFE if the RQFII is unable to use its RQFII quota effectively within one year since the quota is granted. If SAFE reduces the RQFII’s quota, it may affect the Manager’s ability to effectively pursue the investment strategy of the CSOP A50 ETF. On the other hand, the SAFE is vested with the power to impose regulatory sanctions if the RQFII or the PRC Custodian violates any provision of the RQFII Measures. Any violations could result in the revocation of the RQFII’s quota or other regulatory sanctions and may adversely impact on the portion of the RQFII’s quota made available for investment by the CSOP A50 ETF.

Investors should note that there can be no assurance that a RQFII will continue to maintain its RQFII status or be able to acquire additional RQFII quota. The CSOP A50 ETF may not have sufficient portion of RQFII quotas to meet all applications for subscription to the CSOP A50 ETF. There is also no assurance that redemption requests can be processed in a timely manner due to repatriation restrictions or adverse changes in relevant laws or regulations. Such restrictions may respectively result in a rejection of applications and a suspension of dealings of the CSOP A50 ETF. In extreme circumstances, the CSOP A50 ETF may incur significant losses due to insufficiency of RQFII quota, limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to RQFII investment restrictions, illiquidity of the Chinese domestic securities market, and/or delay or disruption in execution of trades or in settlement of trades.

The current RQFII laws, rules and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the RQFII laws, rules and regulations will not be abolished. The CSOP A50 ETF, which invests in the PRC markets through a RQFII, may be adversely affected as a result of such changes.

Application of RQFII rules. The RQFII programme is still at a pilot stage. The RQFII Regulations described under section “**7. Renminbi Qualified Foreign Institutional Investor (RQFII)**” in Appendix 1 of Part 2 of this Prospectus have been recently announced and there may be uncertainties as to its implementation. The rules are novel in nature and are therefore relatively untested: their application may depend on the interpretation given by the relevant Chinese authorities. The Chinese authorities and regulators have been given wide discretion in such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future.

Investment products (such as the CSOP A50 ETF) which make investments pursuant such RQFII rules are among the first of its kind. Any changes to the relevant rules may have an adverse impact on investors' investment in the CSOP A50 ETF. In the worst scenario, the Manager may determine that the CSOP A50 ETF shall be terminated if it is not legal or viable to operate the CSOP A50 ETF because of changes to the application of the relevant rules.

RQFII systems risk. The current RQFII Regulations include rules on investment restrictions applicable to the CSOP A50 ETF.

In the event of any default of the PRC Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC, the CSOP A50 ETF may encounter delays in recovering its assets which may in turn impact the Net Asset Value of the CSOP A50 ETF.

Risks relating to liquidity of Index Securities. Due to the potential liquidity constraint of the underlying Index Securities, the Manager may not be able to efficiently process the transactions for the Creation and Redemption Applications without adverse impact on the fund value of the CSOP A50 ETF, therefore the existing investors' interest. Accordingly, the Manager may impose a limit on the total number of Units to be created or redeemed each day.

PRC Custodian risk. The Trustee shall take into its custody or under its control property of the CSOP A50 ETF and hold it on trust for Unitholders. The assets held/credited in the securities account(s) are segregated and independent from the proprietary assets of the PRC Custodian. However, investors should note that, under PRC law, cash deposited in the cash account(s) of the CSOP A50 ETF with the PRC Custodian (which is/are maintained in the joint names of the Manager (as the RQFII holder) and the CSOP A50 ETF) will not be segregated but will be a debt owing from the PRC Custodian to the CSOP A50 ETF as a depositor. Such cash will be commingled with cash that belongs to other clients or creditors of the PRC Custodian. In the event of bankruptcy or liquidation of the PRC Custodian, the CSOP A50 ETF will not have any proprietary rights to the cash deposited in such cash account(s), and the CSOP A50 ETF will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the PRC Custodian. Please refer to the disclosure on the opinion from PRC legal counsel in section "**7. Renminbi Qualified Foreign Institutional Investor (RQFII)**" in this Appendix 1 of Part 2 of this Prospectus. Whilst the opinion from PRC legal counsel indicates the legal position based on understanding of current PRC laws, such opinion may not be conclusive; and ultimately the interpretation and operation of the relevant PRC laws and regulations depend on the judicial and/or regulatory authorities of the PRC.

The CSOP A50 ETF may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the CSOP A50 ETF will suffer.

PRC brokerage risk. The execution of transactions may be conducted by PRC Broker(s) appointed by the RQFII. As a matter of practice, only one PRC Broker can be appointed in respect of each stock exchange in the PRC. Thus, the CSOP A50 ETF will rely on only one PRC Broker for each stock exchange in the PRC, which may be the same PRC Broker. If the Manager is unable to use its designated PRC Broker in the PRC, the operation of the CSOP A50 ETF will be adversely affected and may cause Units of the CSOP A50 ETF to trade at a premium or discount to its NAV or the CSOP A50 ETF may not be able to track the Underlying Index. Further, the operation of the CSOP A50 ETF may be adversely affected in case of any acts or omissions of the PRC Broker, which may result in a higher tracking error or the CSOP A50 ETF being traded at a significant premium or discount to its NAV.



If a single PRC Broker is appointed, the CSOP A50 ETF may not necessarily pay the lowest commission available in the market. The RQFII Holder however, in the selection of PRC Brokers will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards.

There is a risk that the CSOP A50 ETF may suffer losses from the default, bankruptcy or disqualification of the PRC Brokers. In such event, the CSOP A50 ETF may be adversely affected in the execution of any transaction. As a result, the net asset value of the CSOP A50 ETF may also be adversely affected.

Subject to the applicable laws and regulations, the Manager will make arrangements to satisfy itself that the PRC Brokers have appropriate procedures to properly segregate the CSOP A50 ETF's securities from those of the relevant PRC Brokers.

Risks relating to premium arising from insufficient RQFII quota. There can be no assurance that additional RQFII quota can be obtained to fully satisfy Creation Application requests, which will lead to such requests of Participating Dealers being rejected by the Manager. This may result in a need for the Manager to close the CSOP A50 ETF to further subscriptions which may lead to a significant premium in the trading price of the CSOP A50 ETF against its Net Asset Value.

#### **11.4 Risks relating to RMB dealing, trading and settlement**

##### Primary market:

Non-RMB or Late Settlement Redemption Risk. Currently, RMB cannot be freely remitted into the PRC and such remittance is subject to certain restrictions. In the event that the remittance of RMB from Hong Kong to the PRC is disrupted, this may impact on the ability of the CSOP A50 ETF to acquire the Index Securities. This in turn may result in tracking error and the CSOP A50 ETF may not be able to fully replicate the Underlying Index in such circumstance.

On the other hand, where, in extraordinary circumstances, the remittance or payment of RMB funds on the redemption of Units cannot, in the opinion of the Manager in consultation with the Trustee, be carried out normally due to legal or regulatory circumstances beyond the control of the Trustee and the Manager, redemption proceeds may be delayed or, if necessary in exceptional circumstances, be paid in US dollars or Hong Kong dollars instead of in RMB (at an exchange rate determined by the Manager after consultation with the Trustee). As such, there is a risk that investors receive settlement in RMB on a delayed basis or may not be able to receive redemption proceeds in RMB (i.e. such proceeds may be paid in US dollars or Hong Kong dollars).

##### Secondary market:

RMB Trading and Settlement of Units Risk. RMB denominated securities are listed and traded on the SEHK relatively recently. Therefore, trading and settlement of RMB-denominated securities are recent developments in Hong Kong and there is no assurance that there will not be any problem with the systems or that other logistical problems will not arise. The listing, trading and settlement of the Units, being RMB-denominated securities, may not be capable of being implemented as envisaged. Not all stockbrokers or custodians may be ready and able to carry out trading and settlement of the Units.

Although end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in 2011, some stockbrokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, there is no assurance of their readiness for dealing in RMB denominated securities. Investors should note that not all

stockbrokers may be ready and able to carry out trading and settlement of Units of the CSOP A50 ETF and thus they may not be able to deal in the Units through some stockbrokers.

In addition, the liquidity and trading price of the Units of the CSOP A50 ETF may be adversely affected by the limited availability of RMB outside the PRC and the restrictions on the conversion between foreign currency and the RMB.

#### **11.5 Risks relating to the novel nature of product**

Risks in light of novelty and cross-border nature of the CSOP A50 ETF. CSOP A50 ETF being an RMB-denominated physical exchange traded fund that directly invests in A-Share market (which is inherently a market with restricted access) is one of the first of its kind, i.e. exchange traded fund denominated in RMB and invests in the PRC market under the RQFII regime. In light of the novelty and untested cross-border nature of the CSOP A50 ETF, it is more risky than traditional exchange traded funds which invest directly in markets other than the A-share market and therefore, is subject to operational and settlement risks. Operational risks may arise from technical failures of communication and trading systems, and any breaches of the relevant operational policies or guidelines by the relevant staff of the Manager. Whilst the Manager has in place internal control systems, operational guidelines and contingency procedures to reduce the chances of such operational risks, there is no guarantee that events beyond the control of the Manager (e.g. trading errors or system errors) will not occur. The occurrence of such events may adversely affect the value of the CSOP A50 ETF.

To the extent that the CSOP A50 ETF transacts in the China A-Share market, the CSOP A50 ETF may also be exposed to risks associated with settlement procedures. Any significant delays in the settlement of transactions or the registration of a transfer may affect the ability to ascertain the value of the CSOP A50 ETF's portfolio and adversely affect the CSOP A50 ETF.

Limited operating history and experience of the Manager and reliance on parent company. In light of the novelty and cross-border nature of RQFII ETF, the CSOP A50 ETF is subject to the risks relating to the limited operating history and experience of the Manager in managing and operating RQFII physical A-Share ETF. The Manager may substantially tap into its PRC parent company's relevant infrastructure and expertise to support its operation of the CSOP A50 ETF in Hong Kong. While the PRC parent company of the Manager has sufficient experience and expertise in managing and operating physical A-Share exchange traded funds listed and traded in China, there is no assurance that the CSOP A50 ETF will be operated as envisaged. Any disruption in the assistance from the Manager's parent company may adversely affect the operations of the CSOP A50 ETF.

#### **11.6 Risks relating to the Underlying Index of CSOP A50 ETF**

Risks relating to the Underlying Index. The CSOP A50 ETF may be subject to the following risks in relation to the Underlying Index:

- (i) If the Underlying Index is discontinued or the Manager's license from the Index Provider under the relevant licence agreement is terminated, the Manager may, in consultation with the Trustee, seek the Commission's prior approval to replace the Underlying Index with an index that is tradable and has similar objectives to the Underlying Index. Please refer to section "**16. Replacement of Underlying Index**" below on the circumstances in which the Underlying Index may be replaced by the Manager. Such change shall be made in accordance with the provisions of the Trust Deed and with the prior approval of the Commission. For the avoidance of doubt, index-tracking will remain the CSOP A50 ETF's investment objective.

The Manager has been granted a licence by FTSE International Limited (“**FTSE**”) to use the Underlying Index as a basis for determining the composition of the CSOP A50 ETF and to use certain trade marks in the Index. The licence granted is for an initial term of two years commencing from the date of the agreement (i.e. 15 February 2012), and thereafter automatically renewed for successive one year periods unless terminated pursuant to the agreement. There is no guarantee that the licence agreement will be perpetually renewed.

In addition, the compilation of the Underlying Index is based on the data license agreement between FTSE and SSE and SZSE respectively. The respective data license agreement is automatically renewed for successive one year periods unless terminated pursuant to such agreement. There is no guarantee that the data licence agreement will be perpetually renewed. If such data license agreement is not renewed, the Underlying Index may be discontinued.

The CSOP A50 ETF may be terminated if the Underlying Index is discontinued and/or the Index licence agreement is terminated and the Manager is unable to identify or agree with any Index Provider terms for the use of a suitable replacement index, using, in the opinion of the Manager, the same or substantially similar formula for the method of calculation as used in calculating the Underlying Index and which meets the acceptability criteria under Chapter 8.6(e) of the Code. Any such replacement index will be subject to the prior approval of the Commission under the Code and Unitholders will be duly notified of the same. Accordingly, investors should note that the ability of the CSOP A50 ETF to track the Underlying Index depends on the continuation in force of the Index licence agreement in respect of the Index or a suitable replacement. The CSOP A50 ETF may also be terminated if the Underlying Index ceases to be compiled or published and there is no replacement index, using, in the opinion of the Manager, the same or substantially similar formula for the method of calculation as used in calculating the Underlying Index.

The Manager and the Index Provider may by mutual agreement terminate or postpone the parties’ obligations under the Index licence agreement upon the occurrence of a force majeure event such that the terms of the Index licence agreement can no longer be performed. There is no guarantee or assurance of exact or identical replication at any time of the performance of the relevant Underlying Index.

For further information on the grounds for terminating the license agreement in respect of the Underlying Index, please refer to section “**14. Index Licence Agreement**” in Appendix 1 of Part 2 of this Prospectus.

- (ii) There may be changes in the constituent securities of the Underlying Index from time to time. For example, a constituent security may be delisted or a new eligible security may be added to the Underlying Index. In such circumstances, in order to achieve the investment objective of the CSOP A50 ETF, the Manager may rebalance the composition of a Basket. The price of the Units may rise or fall as a result of these changes. Thus, an investment in Units will generally reflect the Underlying Index as its constituents change from time to time, and not necessarily the way it is comprised at the time of an investment in the Units. Please refer to the section “**17. The Underlying Index**” of this Appendix 1 to Part 2 of this Prospectus below for more information on how the Underlying Index is compiled.
- (iii) The process and the basis of computing and compiling the Underlying Index and any of its related formulae, constituent companies and factors may also be changed or altered by the Index Provider at any time without notice. There is also no warranty, representation or guarantee given to the investors as to the accuracy or completeness of the Underlying Index, its computation or any information related thereto.

## 11.7 **Other risks**

**Operating risk.** There is no assurance that the performance of the CSOP A50 ETF will be identical to the performance of the Underlying Index. The level of fees, taxes and expenses payable by the CSOP A50 ETF will fluctuate in relation to the Net Asset Value. Although the amounts of certain ordinary expenses of the CSOP A50 ETF can be estimated, the growth rate of the CSOP A50 ETF, and hence its Net Asset Value, cannot be anticipated. Accordingly, no assurance can be given as to the performance of the CSOP A50 ETF or the actual level of its expenses. Under the terms of the Trust Deed and as summarised under the section headed “**14.5 Termination of the Trust or a Sub-Fund**” in Part 1 of this Prospectus, the Manager may terminate the CSOP A50 ETF. On the termination of the CSOP A50 ETF, the CSOP A50 ETF will be liquidated and investors will receive distributions of cash although the Manager has the power to decide to make distributions in specie.

**Reliance on RMB Market Makers.** Investors should note that Units of the CSOP A50 ETF are traded and settled in RMB. There may be less interest by potential market makers making a market in Units denominated in RMB. Furthermore, any disruption to the availability of RMB may adversely affect the capability of market makers in providing liquidity for the Units.

**No Market in the Units Risk.** Although the Units are to be listed on the SEHK and at least one market maker has been appointed, investors should be aware that there may be no liquid trading market for the Units or that such market maker(s) may cease to fulfil that role. Further, there can be no assurance that Units will experience trading or pricing patterns similar to those of other exchange traded fund which are traded on the SEHK and which are based upon indices.

**Termination of Market Maker Risk.** A market maker may cease to act as a market maker for the CSOP A50 ETF in accordance with the terms of its agreement including upon giving prior written notice. The termination notice period for at least one market maker for the CSOP A50 will be ninety (90) days. The liquidity for the Units of the CSOP A50 ETF may be affected if there is no market maker for the CSOP A50 ETF. The Manager intends to ensure that there is at least one market maker for the CSOP A50 ETF to facilitate efficient trading.

**Liquidity Risk.** Units will be a new security and following listing on the SEHK, it is unlikely that the Units will initially be widely held. Accordingly, any investor buying Units in small numbers may not necessarily be able to find other buyers should that investor wish to sell. To address this risk, at least one market maker has been appointed. There are also a number of limitations on the conversion of RMB. These factors may affect the amount of RMB available for investors to invest in Units on the SEHK and accordingly adversely affect the market demand for the Units. In turn this may affect the liquidity and trading price of the Units in the secondary market. Therefore, Unitholders may not be able to sell their Units in the secondary market in as timely a manner as some other equity products denominated in Hong Kong dollars listed in Hong Kong, and the trading price may not fully reflect the intrinsic value of the Units.

## 12. **FEES AND CHARGES**

### 12.1 **Management Fees and Servicing Fees**

The Manager is entitled to receive a management fee, currently at the rate of 0.99% per annum of the Net Asset Value of the CSOP A50 ETF accrued daily and calculated as at each Dealing Day and payable monthly in arrears.

## **12.2 Trustee's and Registrar's Fee**

The Trustee is entitled to receive a fee of up to 1% per annum of the Net Asset Value of the CSOP A50 ETF. The current Trustee's fee is calculated as a percentage per annum of the Net Asset Value of the CSOP A50 ETF at a rate of 0.16% per annum for the first RMB200 million of the Net Asset Value, 0.14% per annum for the next RMB1,000 million of the Net Asset Value, 0.12% for the next RMB1,000 million of the Net Asset Value, 0.10% for the next RMB1,000 million of the Net Asset Value and 0.08% per annum for the remaining balance of the Net Asset Value, accrued daily and calculated as at each Dealing Day and payable monthly in arrears, subject to a monthly minimum of RMB40,000.

The Trustee's fee is inclusive of fees payable to the Custodian and the PRC Custodian.

The Trustee (acting as the Registrar) is also entitled to a fee of RMB120 per Participating Dealer per transaction.

The Trustee shall also be entitled to be reimbursed out of the assets of the CSOP A50 ETF all out-of-pocket expenses incurred.

## **12.3 Service Agent's Fee**

The Service Agent is entitled to receive a monthly conciliation fee of HK\$5,000 from the Manager. For any period less than a month, the reconciliation fee is payable by the Manager on a pro-rata basis and accrues on a daily basis.

## **12.4 Other Charges and Expenses of CSOP A50 ETF**

Please refer to section "12.4 Other Charges and Expenses" in Part 1 of this Prospectus on other charges and expenses payable by the CSOP A50 ETF.

## **12.5 Establishment costs of CSOP A50 ETF**

Please refer to section "12.5 Establishment Costs" in Part 1 of this Prospectus on the establishment costs of the CSOP A50 ETF.

## **12.6 Fees Payable by Participating Dealers, Primary Market Investors and Secondary Market Investors**

The fees payable by Participating Dealers, Primary Market Investors and Secondary Market Investors are summarized in the respective tables below:

### **12.6.1 Participating Dealers**

#### *Creation of Units by a Participating Dealer*

Application Cancellation Fee	RMB8,500 per cancellation (See Note 1)
Extension Fee	RMB8,500 per extension (See Note 1)
Transaction Fee	RMB12,000 per Application (See Note 2)
Service Agent Fee	See Note 3
Stamp duty	Nil

#### *Redemption of Units by a Participating Dealer*

Application Cancellation Fee	RMB8,500 per cancellation (See Note 1)
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Extension Fee	RMB8,500 per extension (See Note 1)
Transaction Fee	RMB12,000 per Application (See Note 2)
Service Agent Fee	See Note 3
Stamp duty	Nil

Participating Dealers shall also bear all transaction costs, Duties and Charges and other expenses and charges, and the market risks in constituting and liquidating the Basket(s) in relation to an Application.

#### **12.6.2 Primary Market Investors creating or redeeming Units through a Participating Dealer or a stockbroker**

Primary Market Investors submitting creation or redemption requests through the Participating Dealer or a stockbroker should note that the Participating Dealer or the stockbroker (as the case may be) may impose fees and charges in handling such requests. Such investors should check the relevant fees and charges with the Participating Dealer or the stockbroker (as the case may be).

#### **12.6.3 Secondary Market Investors Dealing in Units on the SEHK**

Brokerage	Market rates (in currency determined by the intermediaries used by the investors)
Transaction levy	0.003% (see Note 4 and Note 8)
Trading fee	0.005% (see Note 5 and Note 8)
Stamp duty	Nil (see Note 6)
Investor compensation levy	0.002% (currently suspended) (see Note 7)

Note:

1. The Application Cancellation Fee of RMB8,500 and the Extension Fee of RMB8,500 are payable by the Participating Dealer, and are payable to the Trustee for its own account, on each occasion the Manager grants the request of such Participating Dealer for cancellation or extended settlement in respect of such Application as provided in this Prospectus.
2. A Transaction Fee of RMB12,000 per Application is payable by each Participating Dealer for the account and benefit of the Trustee.
3. A Service Agent Fee of HK\$1,000 is payable by each Participating Dealer to the Service Agent for each book-entry deposit transaction or book-entry withdrawal transaction.
4. A transaction levy of 0.003% of the trading price of the Units, payable by the buyer and the seller.
5. A trading fee of 0.005% of the trading price of the Units, payable by the buyer and the seller.
6. A stamp duty of 0.2% of the trading price of the Units, one half is payable by the buyer and the other half payable by seller. Approval has been given by the Financial Services and the Treasury Bureau for remission or refund in full of stamp duty payable or paid in respect of any contract notes or instruments of transfer relating to transactions in Units in the CSOP A50 ETF. Therefore, the seller and the purchaser of the Units shall not be liable for Hong Kong stamp

duty upon such transfer. However, nominal stamp duty may still be payable on any instruments of transfer relating to transactions in Units in the CSOP A50 ETF.

7. The investor compensation levy of the trading price of the Units, payable by the buyer and the seller, has been suspended pursuant to the exemption notice published by the Commission on 11 November 2005.
8. The transaction levy and trading fee will be paid by intermediaries to HKEx in Hong Kong dollars and calculated based on an exchange rate as determined by the Hong Kong Monetary Authority on the date of the trade which will be published on the HKEx website by 11:00 a.m. on each trading day.

Investors should consult their own intermediaries as to how and in what currency the trading related fees and charges should be paid by the investors.

#### **12.6.4. Total Expense Ratio**

The total expense ratio (“TER”) of the CSOP A50 ETF is estimated to be 1.15% per annum. TER is the sum of anticipated charges to the CSOP A50 ETF (including the management fee, the trustee’s fee and other charges) expressed as a percentage of the Net Asset Value of the CSOP A50 ETF but it does not represent the estimated tracking error.

### **13. ADDITIONAL DOCUMENTS AVAILABLE FOR INSPECTION**

The material contracts in respect of the CSOP A50 ETF are set out below:

- (a) RQFII Custody Agreement; and
- (b) RQFII Participation Agreement.

The above material contracts are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager. Please refer to section “**14.17 Complaints and Enquiries**” in Part 1 of this Prospectus for the address of the Manager.

Please refer to section “**14.11 Documents Available for Inspection**” in Part 1 of this Prospectus for the list of the other documents that are available for inspection.

### **14. INDEX LICENCE AGREEMENT**

The Manager has been granted a non-exclusive, non transferable licence pursuant to index licence agreement dated 15 February 2012 (the “**Licence Agreement**”) entered into between the Manager and FTSE, to use the Underlying Index (i.e. FTSE China A50 Index) in connection with the issue, operation, marketing, promotion and distribution of the CSOP A50 ETF.

The Licence Agreement has an initial term of two years and thereafter additional one year periods until terminated by either party under the circumstances listed below:

- (a) FTSE may terminate the Licence Agreement forthwith if:
  - (i) the Manager breaches its obligation to comply with the terms of the United Kingdom Bribery Act 2010;
  - (ii) the Manger breaches its warranty under the Licence Agreement;

- (iii) the Manager is convicted of any offence relating to the CSOP A50 ETF or to the trading of the Units of CSOP A50 ETF;
  - (iv) the Manager is found to be in material breach of any applicable laws, regulations or rules; or
  - (v) there is a change of control impacting on or in relation to the Manager.
- (b) The Manager may terminate the Licence Agreement if a notice to increase charges is received from FTSE and the increase is greater than 15% of the total amount of charges subject to increase as they applied prior to the increase taking effect.
- (c) Either party may terminate the Licence Agreement if:
- (i) the other party breaches any term of the Licence Agreement and it is not possible to remedy the breach;
  - (ii) the other party commits any material breach of its obligations and fails to remedy the breach within 15 days of receipt of written notice requiring the same;
  - (iii) the other party suffers from an “insolvency event” (as defined in the Licence Agreement);
  - (iv) at least 3 months’ prior written notice is given to the other party.

**15. MATERIAL CHANGES TO THE INDEX**

The Commission should be consulted on any events that may affect the acceptability of the Underlying Index. Significant events relating to the Underlying Index will be notified to Unitholders as soon as practicable. These may include a change in the methodology / rules for compiling or calculating the Underlying Index, or a change in the objective and characteristics of the Underlying Index.

**16. REPLACEMENT OF UNDERLYING INDEX**

The Manager reserves the right, with the prior approval of the Commission and provided that in its opinion the interests of the Unitholders would not be adversely affected, to replace the Underlying Index. The circumstances under which any such replacement might occur include but are not limited to the following events:

- (a) the Underlying Index ceasing to exist;
- (b) the licence to use the Underlying Index being terminated;
- (c) a new index becoming available that supersedes the existing Underlying Index;
- (d) a new index becoming available that is regarded as the market standard for investors in the particular market and/or would be regarded as more beneficial to the Unitholders than the existing Underlying Index;
- (e) investing in the Index Securities comprised within the Underlying Index becomes difficult;
- (f) the Index Provider increasing its licence fees to a level considered too high by the Manager;
- (g) the quality (including accuracy and availability of the data) of the Underlying Index having in the opinion of the Manager, deteriorated;



- (h) a significant modification of the formula or calculation method of the Underlying Index rendering that index unacceptable in the opinion of the Manager; and
- (i) the instruments and techniques used for efficient portfolio management not being available.

The Manager may change the name of CSOP A50 ETF if the Underlying Index changes or for any other reasons including if licence to use the Underlying Index is terminated. Any change to (i) the use by CSOP A50 ETF of the Underlying Index and/or (ii) the name of CSOP A50 ETF will be notified to investors.

## **17. THE UNDERLYING INDEX**

Investors should note that the information on set out below is based on publicly available documents that have not been prepared or independently verified by the Manager, the Trustee, the Listing Agent or any advisers in connection with the offering and listing of the CSOP A50 ETF, and none of them makes any representation as to or takes any responsibility for the accuracy or completeness of such information.

The Underlying Index of the CSOP A50 ETF is the FTSE China A50 Index. The FTSE China A50 Index is a free float-adjusted market capitalisation-weighted index compiled and published by FTSE. The Manager is independent of the Index Provider. FTSE China A50 Index is a real-time, tradable index comprising the largest 50 A-Share companies by full market capitalisation of the FTSE China A All-Share Index and is a subset of the FTSE China A 200 Index. The Underlying Index offers the optimal balance between representativeness and tradability for China's A Share market and includes stocks listed on the Shanghai and Shenzhen stock exchanges.

The Underlying Index is a price return index which means that it does not include the reinvestment of dividends from the Index Securities that are net of withholding tax. The Underlying Index is denominated and quoted in RMB.

The Underlying Index was launched on 13 December 2003. As of 29 June 2012, it had a total market capitalisation of RMB2,910.059 billion.

FTSE or its affiliates are the proprietors and absolute owners of the Underlying Index and the designations FTSE®. FTSE has granted to the Manager, by way of a licence, subject to the terms of an index licence agreement between them, among other things the non-transferable and non-exclusive right to use the Underlying Index as the basis for determining the composition of the Underlying Index in respect of the CSOP A50 ETF and to sponsor, issue, establish, market, list and distribute the CSOP A50 ETF.

### **Index Methodology**

All China A-Share classes of equity in issue are eligible for inclusion in the FTSE China A All-Share Index. The eligibility for securities to be included in the Underlying Index is based on: (i) liquidity screens; and (ii) free float.

- (i) **Liquidity screens** – are based on the security's median daily trading per month on the Shanghai and Shenzhen stock exchanges. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.

Security eligible for inclusion must have a minimum turnover percentage of the shares in issue, based on the median daily trade per month. The security must have such turnover percentage for a certain number of months prior to the full market review in March. The minimum turnover percentage and the number of months meeting such

percentage are different for non-constituent securities, existing constituents and new issues.

- (ii) **Free float** – Constituents are adjusted for free float and weighted according to how much share capital is available for public investment. This achieves the most accurate and neutral market representation and takes in to account the true opportunity set available to an investor. FTSE has chosen to apply free float restrictions in weighted bands. The bands are narrow at the lower end of the scale where greater sensitivity is required for an accurate representation. At the higher end, broader bands are applied. With this methodology, the weightings of the larger companies do not fluctuate unless a significant corporate event has occurred. This process accurately reflects the investability of a company, without subjecting the investor to frequent rebalancing transactions associated with a precise free float methodology.

### **Selection criteria**

The 50 largest companies by full market capitalisation of the FTSE China A All-Share Index are selected to form the Underlying Index.

Investors should refer to Schedule 2 of the Prospectus for further information regarding the Underlying Index including the selection criteria.

### **Index Maintenance**

The Underlying Index is reviewed quarterly in March, June, September and December, with advance notification given of any changes to constituents on [www.ftse.com](http://www.ftse.com) to ensure that the index continues to reflect market reality. A schedule of periodic reviews is provided on [http://www.ftse.com/Indices/FTSE\\_China\\_Index\\_Series/Index\\_Reviews.jsp](http://www.ftse.com/Indices/FTSE_China_Index_Series/Index_Reviews.jsp).

Schedule 2 of the Prospectus also sets out some of the key ground rules applicable to the Underlying Index as at the date of this Prospectus. A full set of the ground rules for the management of the Underlying Index is also available on [http://www.ftse.com/Indices/FTSE\\_China\\_Index\\_Series/Index\\_Rules.jsp](http://www.ftse.com/Indices/FTSE_China_Index_Series/Index_Rules.jsp). The index methodology is subject to change from time to time and investors should refer to this website for up-to-date information about the index methodology.

The Underlying Index is calculated and is updated continuously on an intra-second streaming basis until the market closes.

FTSE publishes the real time index level (Ticker: XIN9I:IND) on Bloomberg, updated throughout the day. The Underlying Index may also be viewed on Reuters (Ticker: FTXIN9).

### **Index Securities of the Underlying Index**

As at 29 June 2012, the 10 largest constituent securities of the Underlying Index, as listed below, represented about 49.00 per cent of the Underlying Index.

Rank	Constituent Name	Weighting
1.	Ping An Insurance	9.44
2.	China Merchants Bank	6.24
3.	Shanghai Pudong Development Bank	4.90
4.	Bank of Communications	4.81
5.	Industrial Bank	4.53
6.	China Minsheng Banking	4.37
7.	Kweichow Moutai	4.28
8.	Citic Securities	4.02
9.	China Vanke	3.72
10.	Wuliangye Yibin	2.68

You can obtain the most updated list of the constituents of the Underlying Index and additional information of the Underlying Index from the website of FTSE at [http://www.ftse.com/Indices/FTSE\\_China\\_Index\\_Series/Constituents.jsp](http://www.ftse.com/Indices/FTSE_China_Index_Series/Constituents.jsp) .

**Index Provider Disclaimer**

The CSOP A50 ETF is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited (“**FTSE**”) or the London Stock Exchange Group companies (“**LSEG**”) (together the “**Licensors Parties**”) and none of the Licensors Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE China A50 Index (the “**Index**”) (upon which the CSOP A50 ETF is based), (ii) the figure at which the Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the CSOP A50 ETF. None of the Licensors Parties have provided or will provide any financial or investment advice or recommendation in relation to the Index to CSOP Asset Management Limited or to its clients. The Index is calculated by FTSE or its agent. None of the Licensors Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the Index or (b) under any obligation to advise any person of any error therein.

All rights in the Index vest in FTSE. “FTSE®” is a trade mark of LSEG and is used by FTSE under licence.

## SCHEDULE 1 - INVESTMENT AND BORROWING RESTRICTIONS

### **Investment Restrictions**

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager. Each of the Sub-Fund(s) is subject to the following principal investment restrictions:-

- (a) not more than 10% of the Net Asset Value of a Sub-Fund may consist of Securities (other than Government and other public securities) issued by any one company or body, unless it is limited to any Securities constituting the Underlying Index (“constituent securities”) that each accounts for more than 10% of the weighting of the Underlying Index, the Sub-Fund’s holding of any such constituent securities may not exceed their respective weightings in the Underlying Index, except where the weightings are exceeded as a result of changes in the composition of the Underlying Index and the excess is only transitional and temporary in nature; or
  - (b) a Sub-Fund (when aggregated with the holdings of all the other Sub-Funds) may not hold more than 10% of any ordinary shares issued by any single issuer;
  - (c) not more than 15% of the Net Asset Value of a Sub-Fund may consist of Securities not listed, quoted or dealt in on a stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded;
  - (d) not more than 15% of the Net Asset Value of a Sub-Fund (in terms of total amount of the premium paid) may consist of warrants and options, other than warrants and options held for hedging purposes;
  - (e) (i) not more than 10% of the Net Asset Value of a Sub-Fund may consist of shares or units in other collective investment schemes (“**managed funds**”) which are non-recognised jurisdiction schemes (as permitted under the Code) and not authorised by the Commission; (ii) not more than 30% of the Net Asset Value of a Sub-Fund may consist of shares or units in a managed fund which is either a recognised jurisdiction scheme\* (as permitted under the Code) or an Commission-authorized scheme unless the managed fund is authorised by the Commission and the relevant disclosure requirements in the Code are complied with, provided that no investment may be made in a managed fund, the investment objective of which is to invest primarily in any investments prohibited by the Commission for the purposes of investment by managed funds authorised by the Commission, and where such managed fund’s investment objective is to invest primarily in investments restricted by chapter 7 of the Code, such holdings may not be in contravention of the relevant limitations;
- \* Recognised jurisdiction schemes refers to UCITS III schemes domiciled in Luxembourg, Ireland or the United Kingdom, and such other categories of recognized jurisdiction schemes as determined by the Commission from time to time.*
- (f) where a Sub-Fund invests in any managed funds managed by the Manager or its connected persons, all initial charges on the managed funds must be waived (or refunded, if paid);
  - (g) the Manager may not obtain a rebate on any fees or charges levied by a managed fund or the managed fund’s management company;
  - (h) not more than 20% of the Net Asset Value of a Sub-Fund may consist of physical commodities (including gold, silver, platinum or other bullion) and commodity based investments (other than shares in companies engaged in producing, processing or trading in commodities);
  - (i) the net aggregate value of futures contract prices, whether payable to or by a Sub-Fund (other than futures contracts entered into for hedging purposes), together with the aggregate value of investments falling within paragraph (f) above held by that Sub-Fund, may not exceed 20% of the Net Asset Value of that Sub-Fund;

- (j) subject to (a) above, the value of a Sub-Fund's holding in Government and other public securities of the same issue may exceed 30% of the Net Asset Value of the Sub-Fund at the time the investment is made and the Manager may invest all of the assets of a Sub-Fund in Government and other public securities in any number of different issues;
- (k) if and for so long as a Sub-Fund is authorised pursuant to section 104 of the Securities and Futures Ordinance any investment made for the account of that Sub-Fund in any collective investment scheme shall comply with the applicable restrictions under the Code.

For the purpose of this section, "Government and other public securities" means any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organisation for Economic Co-operation and Development ("**OECD**") or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing. "Government and other public securities" will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.

The Manager shall not on behalf of any Sub-Fund(s):-

- (i) invest in a security of any class in any company or body if any director or officer of the Manager individually own more than 0.5% of the total nominal amount of all the issued Securities of that class or the directors and officers of the Manager collectively own more than 5% of those Securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies or interests in real estate investment trusts ("**REITs**"));
- (iii) make short sales if as a result such Sub-Fund would be required to deliver Securities would exceed 10% of the Net Asset Value of such Sub-Fund or if the security which is to be sold short is not actively traded on a market where short selling activity is permitted;
- (iv) write uncovered options;
- (v) write a call option if the aggregate of the exercise prices of such call option and of all other call options written for the account of such Sub-Fund would exceed 25% of the Net Asset Value of that Sub-Fund;
- (vi) make a loan out of the assets of that Sub-Fund without the prior written consent of the Trustee except to the extent that the acquisition of an investment or the making of a deposit (within applicable investment restrictions) might constitute a loan;
- (vii) assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person without the prior written consent of the Trustee;
- (viii) enter into any obligation on behalf of a Sub-Fund or acquire any asset for the account of that Sub-Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of a Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of such Sub-Fund which has not been appropriated and set aside for any other purposes (including (v) above) and shall not be entitled without the consent of the Trustee to apply any part of the relevant Sub-Fund in the acquisition of any other investment which is in the opinion of the Trustee likely to involve the Trustee in any liability (contingent or otherwise).

### ***Borrowing Restrictions***

Subject to the limits set out in Part 2 of this Prospectus, the Manager may engage in borrowing in order to acquire investments, to redeem Units or to pay expenses relating to a Sub-Fund. The maximum borrowing of a Sub-Fund may not exceed 25% of its latest available Net Asset Value. For this purpose, back-to-back loans do not count as borrowing. The assets of the Sub-Fund may be charged, pledged or otherwise encumbered in any manner as security for any such borrowings.

If the investment and borrowing restrictions set out above are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders. The Manager is not immediately required to sell applicable investments if any of the investment restrictions are exceeded as a result of changes in the value of the relevant Sub-Fund's investments, reconstructions or amalgamations, payments out of the assets of the relevant Sub-Fund or redemption of Units but for so long as such limits are exceeded, the Manager shall not acquire any further investments which would result in such limit being further breached.

### ***Securities lending and repurchase transactions***

The Manager does not currently intend to enter into securities lending transactions and repurchase transactions and other similar over-the-counter transactions on behalf of the Trust or any Sub-Fund. Should this intention change in the future, the Commission's prior approval will be sought and at least one month's prior notice will be given to Unitholders and this Prospectus will be updated accordingly.

## **SCHEDULE 2 - FTSE CHINA A INDEX SERIES**

### **General**

The FTSE China A Index Series (“**Series**”) is designed to represent the performance of the mainland Chinese market that is available to A Share investors and international investors via the QFII scheme. The Series comprises a number of A Share indices including the FTSE China A50 Index (“**Underlying Index**”).

The Series is calculated in real time. The Underlying Index is published on an intra-second streaming basis. The description set out below in respect of the Series applies to the Underlying Index.

The Underlying Index opens at 9:30 a.m. and closes at 3:15 p.m. each day on which the SSE and the SZSE are open.

### **Ground Rules**

FTSE is responsible for the operation of the Series. FTSE will maintain records of the market capitalisation of all constituents, and will make changes to the constituents and their weightings in accordance with specified rules (“**Ground Rules**”). The Ground Rules and news concerning the Index may be viewed on FTSE’s website at:

[http://www.ftse.com/Indices/FTSE\\_China\\_Index\\_Series/Index\\_Rules.jsp](http://www.ftse.com/Indices/FTSE_China_Index_Series/Index_Rules.jsp).

FTSE will carry out a quarterly review of the Underlying Index and implement the resulting constituent changes as required by the Ground Rules. Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. The Secretary to the FTSE Policy Group will inform the FTSE Asia Pacific Regional Committee of all changes to constituent weightings as soon as possible after the new weightings have been determined. FTSE is responsible for publicising changes to constituent weightings.

The Underlying Index may exist in the following states: firm, closed, held, indicative and part.

For the purposes of the above: “firm” means the Underlying Index is being calculated using the trade prices from the relevant stock exchanges for all constituents during the hours the Underlying Index is open ; “closed” means that the Underlying Index has ceased all calculations for the day (the message “CLOSED” will be displayed against the index value); “held” means, during a firm period, the Underlying Index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem (the message “HELD” will be displayed against the index value); “indicative” means that there is a system problem or a situation in the market judged to be affecting the quality of the constituent prices at any time when the Underlying Index is being calculated (the message “IND” will be displayed against the index value); and “part” means the Underlying Index is being calculated during the normal Underlying Index open hours but there are less than 75% of the constituents by capitalisation available with firm prices (the message “PART” will be displayed against the Underlying Index to indicate only a portion of the prices are included. With the exception of this message, the Underlying Index will continue to be displayed and calculated as if it were firm).

### **Eligible Securities**

All A Share classes of equity in issue are eligible for inclusion in the Series subject to conforming to the Ground Rules as described below. The entire quoted equity capital of a constituent company is included in the calculation of its market capitalisation, subject to the following free float restrictions:

(A) Free float restrictions include:

- (1) Shares directly owned by State, Regional, Municipal and Local governments (excluding shares held by independently managed pension schemes for governments).

- (2) Shares held by Sovereign Wealth Funds where each holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- (3) Shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies with which they are affiliated.
- (4) Shares held within employee share plans.
- (5) Shares held by public companies or by non-listed subsidiaries of public companies.
- (6) Shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%.
- (7) All shares where the holder is subject to a lock-in clause (for the duration of that clause).
- (8) Shares held for publicly announced strategic reasons, including shares held by several holders acting in concert.
- (9) Shares that are subject to on-going contractual agreements (such as swaps) where they would ordinarily be treated as restricted.
- (10) Shares that are non-negotiable or non-tradable held by companies who have not converted following the A Share reform.

(B) The following are not considered as free float:

- (1) Portfolio holdings (such as pension and insurance funds) \*
- (2) Nominee holdings (unless they represent restricted free float as defined by Rule 4.4.1)
- (3) Holdings by investment companies \*
- (4) ETFs

\* Where any single portfolio holding is 30% or greater it will be regarded as strategic and therefore restricted. The shares will remain restricted until the holding falls below 27%.

(C) Free float restrictions are calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands.

- |     |   |                 |
|-----|---|-----------------|
| (1) | free float less than or equal to 15%                      | = see (D) below |
| (2) | free float greater than 15% but less than or equal to 20% | = 20%           |
| (3) | free float greater than 20% but less than or equal to 30% | = 30%           |
| (4) | free float greater than 30% but less than or equal to 40% | = 40%           |
| (5) | free float greater than 40% but less than or equal to 50% | = 50%           |
| (6) | free float greater than 50% but less than or equal to 75% | = 75%           |
| (7) | free float greater than 75%                               | = 100%          |



(D) For companies that have a free float less than or equal to 15%:

Company	Free Float Thresholds	Market Size Requirement
New index entrant	Greater than 3% but equal or less than 15%	Full market capitalisation is greater than CNY17 billion
Existing index constituent	Greater than 3% but equal or less than 15%	Full market capitalisation is greater than CNY10 billion
Existing index constituent	Less than or equal to 3% are excluded <sup>#</sup>	-

- (1) A company that has an actual free float of greater than 3% but equal or less than 15% will be eligible for the Underlying Index inclusion providing that its full market capitalisation is greater than CNY 17 billion.
- (2) A constituent company that has an actual free float of greater than 3% but equal or less than 15% will remain in the Underlying Index if its full market capitalisation is greater than CNY 10 billion.
- (3) Constituent companies that have an actual free float of less than 3% will be deleted from the Underlying Index unless the committee decides to make an exception to the index rules. If the committee decides to make an exception to the index rules advanced notice will be provided.
- (4) As the holdings of each shareholder can impact the banded free float, care is taken to ensure all the public available holdings are screened and then categorised as either restricted or unrestricted free float. The investability factor of these constituents is set to their actual free float rounded up to the next highest whole percentage number. Companies will also have to pass the other eligibility criteria as stipulated in the Ground Rules.

(E) Where a company's shares are issued partly, or nil, paid and the call dates are already determined and known, the market price will, for the purposes of calculating its market capitalisation, be adjusted so as to include all such calls (i.e. the fully paid price).

(F) Securities designated "Special Treatment" (i.e. stocks that demonstrate an abnormal financial situation) are eligible for inclusion in the Underlying Index.

### **Liquidity criteria**

Securities must be sufficiently liquid to be traded. The following criteria are used to ensure that illiquid securities are excluded:

- (A) Price – The FTSE Asia Pacific Committee must be satisfied that an accurate and reliable price exists for the purposes of determining the market value of a company. The FTSE Asia Pacific Committee may exclude a security from the Series if it considers that an 'accurate and reliable' price is not available. The Series uses the last trade prices from the relevant stock exchanges, when available.
- (B) Size – All eligible companies will be included in the Series. The FTSE Asia Pacific Committee will determine which companies are included on an annual basis at its meeting held in March. The largest eligible companies ranked by full market capitalisation, i.e. before the application

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<sup>#</sup> See paragraph D(3) below

of any investability weightings, comprising 98% of all companies will be included in the FTSE China A All-Share Index.

- (C) Liquidity – Each security is tested for liquidity on an annual basis in March by calculation of its median daily trading per month. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.
- (1) A non-constituent which does not turnover at least 0.05% of their shares in issue (after the application of any free float weightings) based on their median daily trade per month in ten of the twelve months prior to a full market review, will not be eligible for inclusion in the Series.
  - (2) An existing constituent which does not turnover at least 0.04% of its shares in issue (after the application of any free float weightings) based on its median daily trade per month for at least eight of the twelve months prior to a full market review will be removed from the Series.
  - (3) New issues which do not have a twelve month trading record must have a minimum three month trading record when reviewed. They must turnover at least 0.05% of their free float adjusted shares based on their median daily trade per month in each month since their listing. This rule will not apply to new issues added under the Fast Entry Rule.
  - (4) In assessing liquidity, data will be obtained from the SSE and SZSE.
- (D) At the sole discretion of the FTSE Asia Pacific Regional Committee, the above percentage figures may be adjusted by up to 0.01 % at the March review so that, in the Committee's opinion, the index better reflects the liquid investable market of the region. This discretion may only be exercised across the whole market and may not be applied to individual securities.
- (E) New issues, which do not qualify as early entrants to the Series on the basis of the size of a new issue (see below), will become eligible for inclusion at the next quarterly review of constituents providing they have, since the commencement of official non-conditional trading, a minimum trading record of at least 3 trading months prior to the date of the review and turnover of a minimum of 0.05% of their free float adjusted shares based on their median daily trade per month in each month since their listing.

The inclusion of “early entries” will not require a minimum trading record. Such early entries are included where the FTSE Asia Pacific Regional Committee views a new issue as so large (i.e. its full market capitalisation amounts to 0.5% or more of the full capitalisation of the FTSE China A All-Share Index, before the application of individual constituent investability weightings) that the effectiveness of the Underlying Index as a market indicator would be significantly and adversely affected by its omission.

### **Review Dates**

The quarterly review of the Underlying Index constituents takes place in March, June, September and December. The constituents will be reviewed at the FTSE Asia Pacific Regional Committee meeting using data from the close of business on the next working day following the third Friday in February, May, August and November. Any constituent changes will be implemented on the next trading day following the third Friday of the same month of the review meeting. Index changes resulting from index reviews, will be published as soon as practical following the conclusion of each respective FTSE Asia Pacific Regional Committee meeting.

## **Rules for Addition and Deletion at the Quarterly and Annual Review**

The rules for inserting and deleting companies at the quarterly and annual reviews are designed to provide stability in the selection of constituents of the Series while ensuring that the Index continues to be representative of the market by including or excluding those companies which have risen or fallen significantly. A security will be inserted in the Underlying Index at the periodic review if it rises to 40<sup>th</sup> or above ranked by market capitalisation. A security will be deleted from the Underlying Index at the periodic review if it falls to 61<sup>st</sup> or below ranked by market capitalisation.

A constant number of constituents will be maintained for the Underlying Index. Where a greater number of companies qualify to be inserted in the Underlying Index than those qualifying to be deleted, the lowest ranking constituents presently included in the Underlying Index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies which are presently not included in the Underlying Index will be inserted to match the number of companies being deleted at the periodic review.

Where a company is deleted after the FTSE Asia Pacific Committee has met and approved periodic changes to the Underlying Index but before the periodic changes have been implemented, the highest ranking company from the new reserve list, excluding current index constituents, will replace the deleted company.

## **Removal and Replacement**

If a constituent ceases to be an eligible constituent of the Underlying Index, is delisted, or ceases to have a firm quotation, or is subject to a takeover or has, in the opinion of the Chairman and Deputy Chairman of the FTSE Asia Pacific Committee (or their nominated deputies), ceased to be a viable constituent as defined by the Ground Rules, it will be removed from the list of constituents and be replaced by the highest ranking company by full market capitalisation eligible in the reserve list as at the close of the index calculation two days prior to the deletion.

The removal and replacement are effected simultaneously, before the start of the index calculation on the day following the day on which the event justifying removal was announced. Announcements made after the close of the index calculation are normally deemed to be made on the following business day. A company deleted following a takeover, with a remaining free float of 15% or less will not be re-considered for index inclusion at the next review until at least 6 months has passed between deletion and the review date provided.

## **Mergers, Restructuring and Complex Takeovers**

If the effect of a merger or takeover is that one constituent in the Underlying Index is absorbed by another constituent, the resulting company will remain a constituent of the Underlying Index, and a vacancy will be created. This vacancy will be filled by selecting the highest ranking security in the reserve list as at the close of the index calculation two days prior to the deletion.

If a constituent company in the Index is taken over by a non-constituent company, the original constituent will be removed and replaced by the highest ranking non-constituent on the reserve list. Any eligible company resulting from the takeover will be eligible to become the replacement company if it is ranked higher than any company on the reserve list.

If a constituent company is split so as to form two or more companies, then the resulting companies will be eligible for inclusion as index constituents in the Underlying Index based on their respective full market capitalisations i.e. before the application of any investability weightings and if they qualify in all other respects, e.g. an index constituent split into two companies may result in one or both of these companies remaining in the Underlying Index. The smallest constituent will be removed from the Underlying Index. Index constituent changes resulting from the split will be determined based on market values at close on day one of trading and applied using market values at close on day two of trading, following the split becoming effective. Consequently the Underlying Index may have more than 50 companies for 2 days.

## **New Issues**

If, in the view of the FTSE Asia Pacific Regional Committee, a new issue is so large (i.e. its full market capitalisation amounts to 0.5% or more of the full capitalisation of the FTSE China A All-Share Index, before the application of individual constituent investability weightings) that the effectiveness of the index as a market indicator would be significantly and adversely affected by its omission, the FTSE Asia Pacific Regional Committee will normally decide to include the new issue as a constituent of the Underlying Index after the close of business on the fifth day of official trading. In all cases, advance notification confirming the timing of the inclusion of the new constituent will be given accordingly. The security which is the lowest ranking constituent of the indices in the Underlying Index will be selected for removal and related indices adjusted in accordance with the Ground Rules.

New issues of companies which do not qualify for early entry but which meet the criteria for eligible securities will be eligible for inclusion in the next quarterly review if large enough to become constituents of the Underlying Index.

For these purpose, a company which is relisted following suspension or is reorganised or renamed or which arises from a demerger or complex reorganisation of another company which is not an existing constituent, shall not be considered to be a new issue. However, an initial public offering which arises from a demerger shall be considered as a new issue. A China "B" share company that for the first time issues A Shares onto the SSE or SSZE will, for the Series, be considered a new issue and will be eligible for entry into the Series. If the FTSE Asia Pacific Regional Committee decides to include a new issue as a constituent security other than as part of the normal periodic review procedure, this decision must be publicly announced at the earliest practicable time.

## **Suspension of Dealing**

If a constituent is suspended it may remain in the Underlying Index at its suspension price for up to 20 business days. During this time, on advice from FTSE, the Chair and Deputy Chair (or their deputies) of the FTSE Asia Pacific Regional Committee may agree to delete the constituent immediately either at its suspension price, a grey market price, or at zero.

Where a suspension of a constituent of the Index lasts beyond noon on the twentieth business day (and the option to remove the constituent has not been exercised), it will normally be deleted from the Underlying Index on the eleventh trading day at zero or the suspension price. Where suspension is for a reason not to the detriment of the constituent, it may be retained or removed at its suspension price with the approval of the Chairman and Deputy Chairman (or their deputies) of the FTSE Asia Pacific Regional Committee.

Where the company to be removed is a constituent of the Underlying Index, the replacement company will be the highest ranking company on the reserve list.

## **Relisting of Suspended Constituents**

Where a suspended constituent which has been removed from the indices is subsequently relisted, the following rules shall apply:

- (1) securities which were removed from the Underlying Index, which on relisting are larger than the smallest constituent of the Underlying Index, shall be re-instated in the Underlying Index at the price at which they were removed and the lowest ranking constituent by full market capitalisation of the Underlying Index will be selected for removal and related indices adjusted in accordance with the Ground Rules. The addition and deletion of stocks occur simultaneously, such that there are always 50 constituent companies of the Underlying Index;
- (2) securities which on relisting are smaller than the smallest constituent of the Underlying Index from which they were removed when suspended shall then be re-instated in the Underlying Index at the price at which they were removed after the close of the index calculation on the trading day prior to relisting. After the close of the index calculation on the first day of trading following relisting, the security shall be deleted from the Underlying Index from which it was

originally removed and included in the Underlying Index of which it then qualifies to be a constituent. Consequently the Underlying Index may have 51 constituents for one day only.

### **Changes to Constituent Weighting**

For the purposes of computing the Series and to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the index system changes by more than 1 % on a cumulative basis. If a corporate action is applied to a constituent of the Underlying Index which involves a change in the number of shares in issue, the change in shares will be applied simultaneously with the corporate action.

Changes of shares in issue not arising from corporate actions, amounting to less than 10% of the number of shares in issue but more than 1% will be made quarterly after the close of trading on the third Friday of March, June, September and December. If the cumulative unapplied changes in the number of shares in issue is 10% or greater of the total index shares in issue or it represents at least USD 2 billion of a company's total market capitalisation, the change is implemented between quarters. A minimum of 4 days notice will be given to users of the Underlying Index. WM/Reuters Spot Rates are used to convert the market capitalisation into USD. The USD 2 billion threshold may be adjusted annually in December by the FTSE Policy Group.