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## **W.I.S.E. – CSI 300 China Tracker<sup>®\*</sup>**

(\*This is a synthetic ETF)

## **標智滬深 300 中國指數基金<sup>®\*</sup>**

(\*此基金為一隻合交易所買賣基金)

### **a sub-fund of the World Index Shares ETFs**

(a Hong Kong unit trust authorized under  
section 104 of the Securities and Futures Ordinance<sup>1</sup>  
(Cap. 571 of the laws of the Hong Kong SAR))

**(Stock Code: 02827)**

#### **Announcement -**

### **Direct Investments in A Shares through the Manager’s Investment Quota and Creation and Redemption Application by Eligible Investors and other updates and amendments**

The Manager of W.I.S.E. – CSI 300 China Tracker<sup>®\*</sup>(\*This is a synthetic ETF) (the “Fund”) hereby announces that: (a) with effect from 8 February 2013 (the “Effective Date”), the Manager may invest directly in the PRC A Shares on behalf of the Fund to the extent of the QFII investment quota allotted to the Manager for the account of the Fund. Currently, the Manager has obtained an investment quota of US\$90 million for the account of the Fund; and (b) Eligible Investors (as defined in the Prospectus of the Fund, the “Prospectus”) may, with effect from the Effective Date, make Creation or Redemption Application in Application Unit size via the Manager (in its capacity as dealer for the Eligible Investors) (a QFII (Qualified Foreign Institutional Investor)) to effect the creation or redemption (subject to such terms and conditions as specified in the relevant application forms, the applicable

<sup>1</sup> SFC authorization is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

QFII regulations and restrictions and the other requirements set out in Prospectus) of Units in the Fund. Various sections of the Prospectus will be updated accordingly to cater for the changes.

Further, some updates and amendments will be made to the Prospectus as further elaborated in Item 4 below.

### **1. Manager's QFII investment quota**

The Manager hereby announces that the Manager has been granted QFII licence by the China Securities Regulatory Commission (“CSRC”) on 3 May 2012 and has obtained an investment quota from the State Administration of Foreign Exchange (“SAFE”) in the amount of US\$90 million for the account of the Fund. While the majority the Fund’s investment will continue to be made indirectly through the AXPs, with effect from the Effective Date, the Fund may make direct investments in A Shares up to the limit of the investment quota granted by SAFE. As such, the Manager will update the Prospectus to reflect such changes relating to direct investment by the Fund in A Shares through the Manager's QFII investment quota with effect from the Effective Date.

The Fund's future direct investment in A Shares through the Manager's QFII investment quota will entail certain associated risks including without limitation the risks relating to QFII investment quota and its related regulatory requirements as well as the potential PRC tax risks. Please refer to the Annex attached to this Announcement for a summary of the associated risks.

### **2. Introduction of Eligible Investors to apply via the Manager (in its capacity as dealer for the Eligible Investors) for Creation or Redemption Application**

In order to cater for the Fund's future direct investments in A Shares through the Manager's QFII investment quota, the Manager will allow investors who are Eligible Investors to make requests via the Manager (in its capacity as dealer for the Eligible Investors) to create or redeem (subject to such terms and conditions as specified in the relevant application forms, the applicable QFII regulations and restrictions and the other requirements set out in Prospectus) Units in the Fund. An investor will become an Eligible Investor once he / she has opened an account with the Manager (in its capacity as dealer for the Eligible Investors), having satisfied the client intake procedures of the Manager (in its capacity as dealer for the Eligible Investors) and provided such documents, undertakings and confirmations as the Manager (in its capacity as dealer for the Eligible Investors) may require.

### **3. Changes to the Prospectus**

In view of the proposed changes outlined in 1. and 2. above, the Manager will update the Prospectus and Product Key Facts Statement (KFS) in relation to the Fund and the updated Prospectus and KFS will take effect from the Effective Date. The update will generally be in the following manner:

(a) the Manager will amend the “Investment Objectives and Policies of the

Sub-Fund” in the Prospectus to include the Fund's ability to invest directly in A Shares via the Manager’s QFII investment quota (although, as mentioned above, the Fund will continue to primarily invest in AXP’s);

- (b) the section on “Risk Factors and Risk Management Policies” set out in the Prospectus will be updated to include the additional risk disclosure in relation to direct investments in A Shares through QFIIs;
- (c) various areas of the Prospectus will be updated to reflect that Eligible Investors may create or redeem (subject to such terms and conditions as specified in the relevant application forms, the applicable QFII regulations and restrictions and the other requirements set out in Prospectus) Units in the Fund directly through the Manager.

#### **4. Further Updates and Amendments**

The Prospectus will be updated to consolidate the changes respectively set out in the First Addendum to the Prospectus dated 11 April 2012 and the Second Addendum to the Prospectus dated 21 May 2012 which have already taken effect. Other updates and amendments include:

- (a) address of the Auditor has been changed to:

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

- (b) Item (a) “Counterparty risk” under the section “Risk Factors and Risk Management Policies” will be amended by adding the following disclosure towards the end of the third paragraph:

“For the avoidance of doubt, the collateral is not part of the investment of the Sub-Fund. Further information on the collateral arrangement will be available on the website of the Manager ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).”

- (c) Item (a) under the section “Determination of Net Asset Value” will be amended by adding the words “last closing bid price on the relevant Dealing Day or (if no last closing bid price is available)” before the words “the last traded price on the relevant dealing day” and to delete the words “is available) midway between the latest available market offered price and)”. The revised paragraph will read as follows:

*“(a) the value of any investment quoted, listed or normally dealt in on a market (other than an interest in a Collective Investment Scheme) shall be calculated by reference to the price which appears to the Manager to be the last closing bid price on the relevant Dealing Day or (if no last closing bid price is available) the last traded price on the relevant Dealing Day or (if no last traded price) the latest available market bid*

*price (as at such time as shall be agreed between the Trustee and the Manager) on the market on which the investment is quoted, listed or ordinarily dealt in for such amount of such investment as the Manager may consider in the circumstances to provide a fair criterion, PROVIDED THAT: (a)..."*

The updated Prospectus and KFS will be available for viewing on the website of the Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) and the website of the Manager at [www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English) and [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese) from the Effective Date.

Investors who have any enquiries regarding the above may contact the Manager at 27<sup>th</sup> Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or the Manager's enquiry hotline at (852) 2280 8697.

8 January 2013

## Annex

### Summary of the Associated Risks relating to the Fund's Future Direct Investment in A Shares through the Manager's QFII Investment Quota

1. **Single country / PRC emerging market risk** – Investment in an emerging market, such as the PRC involves special risks and considerations. The Fund may be subject to risks in relation to economic, political, social and regulatory development in the PRC. The Fund invests in a single country market (i.e. PRC) and is likely to be more volatile than a more widely invested fund. The value of the Fund's assets may be affected by uncertainties or changes in government policies, promulgation of foreign currency and monetary policies and tax regulations.
2. **Concentration risk** – The Fund invests primarily in securities related to the China market and may be subject to additional concentration risk.
3. **Risks relating to QFII**
  - (a) ***QFII system and regulation***–
    - Given that the Fund's investments in A Shares through the Manager depend on the ability of the QFIIs (including the Manager) to buy and sell A Shares, any restrictions or any changes in laws and regulations imposed by the PRC government on QFII's operations may adversely affect the direct investment in A Shares by the Manager using its QFII investment quota and/or cause Units in the Fund to trade at a discount on the SEHK.
    - The Fund may not be able to fully implement or pursue its investment objective or strategy, due to the QFII investment restriction, illiquidity of the PRC domestic securities market, and/or delay or disruption in execution or settlement of trades.
  - (b) ***QFII investment quota risk and limitation on creation and redemption of Units*** –
    - The Fund itself is not a QFII but may invest directly in A Shares via the QFII investment quota obtained by the Manager. Once the Manager has fully used its existing QFII investment quota, no further investment in A Shares may be made and the Manager may not be able to accept further Creation Applications directly from any Eligible Investor in such circumstances (in such case, any Eligible Investor may only apply for creation of Units through a Participating Dealer who may do so by transferring to, or for the account of, the Trustee, the relevant AXP's (or cash amount equivalent to the value of the relevant AXP's), unless no additional or further AXP is available). Also, the QFII status of the Manager could be revoked, in particular, because of material violations of the QFII regulations. Should the Manager lose its QFII status or the Manager retires or is removed, the Fund may not be able to invest through the Manager's QFII investment quota in A Shares, and the Fund may be required to dispose of its holdings which would likely have a material adverse effect on the Fund.

- There can be no assurance that the Manager will be able to provide sufficient QFII investment quota to meet all proposed investments to be made by the Fund, or that investments of the Fund can be realized in a timely manner due to possible adverse changes in the relevant laws or regulations, which may impair the Fund’s ability in pursuing its investment objectives or result in loss under extreme circumstances.
- (c) ***QFII investment restrictions*** – Investors should note that direct investments in A Shares through QFIIs are subject to compliance with the following investment restrictions which are currently in force and applicable to each QFII (including the Manager):
- (i) shares held by each QFII in one listed company should not exceed 10% of the total outstanding shares in the company; and
  - (ii) total shares held by all QFIIs in one listed company should not exceed 30% of the total outstanding shares of that company.

However, strategic investments in listed companies listed on the PRC Stock Exchanges in accordance with the “Measures for the Administration of Strategic Investment of Foreign Investors in Listed Companies” are not subject to the above limitations.

The limit on the total shareholding will be applied to all underlying foreign investors. Thus, the capacity of the Fund to make investments in A Shares through the Manager’s QFII investment quota will be affected by the activities of all underlying foreign investors, not just the Manager. However, it will be difficult in practice for the Manager, as a QFII, to monitor the investment of the underlying foreign investors since an investor may make investment through other QFIIs.

Although the Fund currently has been allocated with the Manager’s QFII investment quota of USD90 million, the Fund may not necessarily be able to continue to be allocated with such portion of the QFII investment quota of the Manager. Investors should be aware that violations of the QFII regulations may arise out of activities relating to other portion of the Manager’s QFII investment quota which may be utilized by its clients (other than the Fund) or other sub-fund(s) of the World Index Shares ETFs to which the relevant portion(s) of the Manager’s QFII investment quota have been allocated. Such violations could result in the revocation of or other regulatory action in respect of the QFII investment quota of the Manager as a whole, including any portion made available to or utilized by the Fund.

- (d) ***Repatriation of capital or profits of a QFII*** – There are rules and restrictions under the QFII regulations including rules on remittance of principal, investment restrictions, minimum investment holding periods, and repatriation of principal and profits. Such requirements may change from time to time.
- Within 6 months (subject to any extension that may be granted by SAFE) from the date on which the Manager was formally granted its QFII investment quota, the Manager is required to remit the entire amount of

investment principal into the RMB special account opened with the QFII Custodian. Any shortfall will automatically result in the amount of its QFII investment quota being lowered to the amount actually paid in provided that this is no less than the equivalent of US\$20 million. Once remitted, invested capital may not be repatriated for a minimum of one year as it is subject to a one-year lock-up period which will expire on 20 February 2014 at the latest, unless further notified. Repatriation of investment capital is subject to SAFE's approval and there are restrictions imposed on the repatriation amount and interval. Please refer to the section "Creation and Redemption of Units - Redemption - General" of the Prospectus for details with regard to the timeframe for settlement of the redemption proceeds.

- Net realized profits for any financial year of the QFII may be repatriated following completion of the audit of the QFII investment quota net realized profits by a PRC registered accountant for such period and all applicable tax having been paid. In this regard, the process of repatriations may be affected by any delay in completion of the audit QFII investment quota by the PRC registered accountant which may be out of the control of the Manager.
- The regulations on repatriation of capital and profits will also be applied to each QFII investment quota as a whole. In this regard, the capacity of the Fund to make investments in A Shares through the Manager's QFII investment quota and the ability to repatriate monies from the QFII investment quota granted to the Manager may be adversely affected by the investments, performance and/or repatriation of monies invested by other clients of the Manager utilizing its QFII investment quota.
- The restriction or delay in repatriation of invested capital and net profits may impact on the Fund's ability to meet redemption requests; thus adversely affecting the timing or ability of the investors to receive settlement.

#### **4. Foreign exchange and currency conversion risk –**

- The Fund is denominated in Hong Kong dollar and not RMB. All Creation and Redemption Applications of the Fund's Units in the primary market and the secondary trading of the Fund's Units are in Hong Kong dollar. Foreign exchange costs will be incurred by the Fund as the CSI 300 Index is denominated in RMB while the Base Currency of the Fund is in Hong Kong dollar, and the AXPs are denominated in US dollars (or other currency).
- Under the Manager's QFII investment quota, the Fund's investments in A Shares are denominated in RMB while the Net Asset Value will be quoted in Hong Kong dollar. In relation to the Fund's direct investment in A Shares through the Manager's QFII investment quota, the Manager shall remit HKD subscription monies into the Mainland China through a HKD foreign currency account opened with the QFII Custodian and then convert the HKD subscription monies into RMB for investment. The Fund is therefore subject to foreign exchange costs and currency conversion risk.
- Further, RMB is not freely convertible and is subject to policies of exchange controls and repatriation restrictions. There is no guarantee that the RMB will not depreciate. There is no assurance that RMB will not be subject to devaluation or revaluation or that shortages in the availability of foreign currency

will not develop.

**5. Tracking error risk –**

- The requisite A Shares in respect of an in-cash Creation Application by an Eligible Investor will only be purchased on a Dealing Day or Dealing Days subsequent to the receipt (or deemed receipt) of the relevant Creation Application and the creation of Units for the relevant Eligible Investor, especially where there is suspension of trading of the relevant Securities or disruption of remittance of RMB from Hong Kong to the PRC to settle any purchase of the requisite A Shares due to systems breakdown or failure. Similarly, such suspension or disruption may cause delay in disposing of the requisite A Shares in respect of a Redemption Application. These situations will subject the Fund to market risks. Therefore, a handling fee as described in section “Creation and Redemption of Units” of the Prospectus will be charged to an Eligible Investor, and all or part of such handling fee, as the Manager may at its absolute discretion allocate, will be applied to compensate the Fund for the market risks as described above and the Duties and Charges (as defined in the Prospectus) that the Fund may bear in purchasing or disposing of the relevant A Shares. The Manager considers that in normal market circumstances, this handling fee is a reasonable buffer taking into account the interests of the Eligible Investors and the Fund. However, where the market risks and the Duties and Charges exceed such part of the handling fee which is allocated to compensate the Fund for the market risks and the Duties and Charges, any deficient will be borne by the Fund. Because of such potential discrepancy, the Fund may be subject to a tracking error.
- The Manager may decide to switch some of the Fund’s current investments in the AXP’s to direct investments in the A Shares via the QFII investment quota obtained by the Manager, in which case, the Manager will liquidate the relevant AXP’s and use the proceeds to acquire the A Shares so as to constitute the relevant Basket of A Shares. Apart from the risks relating to the liquidity of the relevant AXP’s, there may be a time gap between the liquidation of the relevant AXP’s and the acquisition of A Shares. The Fund will therefore bear the market risks during such time gap, in addition to the costs associated with the liquidation and acquisition; thus giving rise to tracking error.

- 6. Mainland China tax risk** - There are currently no specific rules or regulations under the PRC tax law governing the taxation of capital gains and profits realized by a QFII on disposal of A Shares. Where capital gain tax is payable by the QFII, the QFII will pass on this tax liability to the Fund. The Fund will be the ultimate party to bear the risks relating to the tax liability of the QFIIs (including the relevant QFII and the Manager) in relation to the underlying A Shares of the CSI 300 Index. As regards the potential capital gain tax liability: (i) in relation to AXP’s, a provision of 10% is made by an AXP issuer and/or the Fund; and (ii) in respect of the A Shares acquired by the Manager on behalf of the Fund, a provision of 10% is made by the Fund. However, the actual applicable tax rate levied by the PRC tax authorities may be different and may change from time to time. Investors should note that if the actual applicable tax rate levied by the PRC tax authorities is more than the capital gain tax provision of 10%, the Net Asset



Value of the Fund may suffer more than the anticipated 10% as the Fund will have to bear the additional tax liabilities.

- 7. Risk of conflicts of interests** – The Manager will assume dual roles as the manager of the Fund and the QFII holder. Also the Manager and the Trustee are affiliated. Situation may arise where there are conflicts of interest between such entities. If such conflict arises, each of the Manager and the Trustee will have regard in such event to its obligations to the Fund and will endeavour to ensure that the Fund is managed in the best interests of Unitholders and that such conflicts are resolved fairly.
- 8. QFII Custodian risk** - Any A Shares acquired by the Fund through the QFII investment quota of the Manager will be maintained by its QFII custodian, in electronic form via a Securities Account with CSDCC and a Cash Account (as defined in the Prospectus) with the QFII Custodian, in accordance with the QFII Custodian Agreement. Further, the Manager has selected certain PRC Brokers to execute transactions for the Fund in the PRC markets. The Fund may incur losses due to the acts or omissions of the PRC Brokers, the QFII Custodian or the Manager, and will be exposed to the risk involved in the execution or settlement of transaction or in the transfer of any funds or securities in the PRC settlement system. Also, the Securities Account and Cash Account for the Fund in the PRC are maintained in the name “BOCI-Prudential Asset Management Limited - W.I.S.E. – CSI 300 China Tracker”. Although the Manager has obtained a legal opinion that the assets in such Securities Account would belong to the Fund, such opinion cannot be relied on as being conclusive, as the relevant PRC regulations are subject to the interpretation of the relevant authorities in the PRC. In addition, investors should note that cash deposited in the Cash Account of the Fund with the QFII Custodian will not be segregated but will be a debt owing from the QFII Custodian to the Fund as a depositor. Such cash will be co-mingled with cash belonging to other clients of the QFII Custodian. In the event of bankruptcy or liquidation of the QFII Custodian, the Fund will not have any proprietary rights to the cash deposited in such Cash Account, and the Fund will become an unsecured creditor, ranking pari-passu with all other unsecured creditors, of the QFII Custodian. The Fund 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 Fund will suffer losses.
- 9. Restrictions on creation and redemption of Units** - The Manager (in its capacity as dealer for the Eligible Investors) reserves the absolute discretion to accept or reject a Creation Application by an Eligible Investor, though the Manager's rejection of a Creation Application by an Eligible Investor shall not affect the Eligible Investor's right to make an Application through a Participating Dealer. The Manager (in its capacity as dealer for the Eligible Investors) reserves the right to accept or reject a Redemption Application by an Eligible Investor under exceptional circumstances having regard to the interest of Unitholders as a whole, provided that the Manager must act reasonably and in good faith. The Manager may also charge such fees as the Manager may in its absolute discretion determine. Also, the Manager (in its capacity as dealer for the Eligible Investors) may reject a Creation Application or Redemption Application by an Eligible Investor in accordance with the terms and conditions

set out in the relevant application form of the Eligible Investor.

**10. Risk related to equity securities like A Shares -**

- The Fund may invest directly in A Shares via the Manager's QFII investment quota allocated to the Fund. The risks associated with investments in equity securities are high, 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 decrease in value.
- The stock exchanges in the PRC on which A Shares are traded are relatively at a developing stage and the choice of investments in the A Shares is limited as compared with other developed securities markets. Their trading volumes may be much lower than those in developed markets. Potential illiquidity and volatility of the A Shares markets may have an adverse impact on the prices of the A Shares in which the Fund invests. The liquidity of the Fund will be affected by the liquidity of its investments and may be subject to restrictions imposed under Chinese regulations on repatriation of principal or profits in respect of investments held through QFIIs. Transaction sizes for QFIIs are relatively large (with the corresponding heightened risk of exposure to decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities). If the size of the disposals are sufficiently large, or the market is illiquid, then there is a risk that either the investments might not be sold or the price at which they are sold may adversely affect the Net Asset Value of the Fund.