

Issuer: Value Partners Hong Kong Limited

April 2024

- This statement provides you with key information about the Value Partners High-Dividend Stocks Fund (the “Trust”).
- This statement is a part of the offering document.
- You should not invest in this product based on this statement alone.

### Quick facts

<b>Manager:</b>	Value Partners Hong Kong Limited
<b>Trustee and Custodian:</b>	HSBC Institutional Trust Services (Asia) Limited
<b>Dealing frequency:</b>	Daily (Hong Kong business days)
<b>Base currency:</b>	US dollars (US\$)
<b>Ongoing charges over a year<sup>#</sup>:</b>	

	Exclusive of performance fees	Inclusive of performance fees
Class A1	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>
Class A2 MDis	1.47% <sup>B</sup>	1.47% <sup>B<sup>A</sup></sup>
Class A Acc HKD Hedged	1.48% <sup>B</sup>	1.48% <sup>B<sup>A</sup></sup>
Class A Acc JPY Hedged	1.48% <sup>*</sup>	1.48% <sup>*<sup>A</sup></sup>
Class A Acc SGD Hedged	1.48% <sup>*</sup>	1.48% <sup>*<sup>A</sup></sup>
Class A Acc RMB Unhedged	1.49% <sup>B</sup>	1.49% <sup>B<sup>A</sup></sup>
Class A Acc RMB Hedged	1.47% <sup>B</sup>	1.47% <sup>B<sup>A</sup></sup>
Class A2 MDis HKD	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>
Class A2 MDis HKD Hedged	1.47% <sup>**</sup>	1.47% <sup>**<sup>A</sup></sup>
Class A2 MDis JPY Hedged	1.47% <sup>**</sup>	1.47% <sup>**<sup>A</sup></sup>
Class A2 MDis AUD Hedged	1.47% <sup>B</sup>	1.47% <sup>B<sup>A</sup></sup>
Class A2 MDis CAD Hedged	1.47% <sup>B</sup>	1.47% <sup>B<sup>A</sup></sup>
Class A2 MDis GBP Hedged	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>
Class A2 MDis NZD Hedged	1.47% <sup>B</sup>	1.47% <sup>B<sup>A</sup></sup>
Class A2 MDis RMB Unhedged	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>
Class A2 MDis RMB Hedged	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>
Class A2 MDis SGD Hedged	1.46% <sup>B</sup>	1.46% <sup>B<sup>A</sup></sup>

**Dividend policy:** Class A Acc HKD Hedged, Class A Acc SGD Hedged, Class A Acc RMB Unhedged, Class A Acc RMB Hedged, and Class A Acc JPY Hedged:

It is the current intention of the Manager that distributions of income will not be made from the Trust

Class A1:

Manager to review dividend distribution at its discretion once a year. Last dividend payout date: 21 November 2005

Class A2 MDis, Class A2 MDis HKD, Class A2 MDis AUD Hedged, Class A2 MDis CAD Hedged, Class A2 MDis GBP Hedged, Class A2 MDis NZD Hedged, Class A2 MDis HKD Hedged, Class A2 MDis SGD Hedged, Class A2 MDis RMB Unhedged, Class A2 MDis RMB Hedged, Class A2 MDis JPY Hedged:

At its discretion, the Manager currently intends to make monthly dividend distribution.

In respect of the above classes, dividends may be paid out of the capital of the relevant class and may result in an immediate reduction of the net asset value (“NAV”) per unit of the Trust.

<b>Minimum investment:</b>	US\$10,000 initial, and US\$5,000 subsequent (for Class A1 and Class A2 MDis)
	HKD80,000 initial, and HKD40,000 subsequent (for Class A Acc HKD Hedged, Class A2 MDis HKD and Class A2 MDis HKD Hedged)
	AUD10,000 initial and AUD5,000 subsequent (for Class A2 MDis AUD Hedged)
	CAD10,000 initial and CAD5,000 subsequent (for Class A2 MDis CAD Hedged)
	GBP10,000 initial and GBP5,000 subsequent (for Class A2 MDis GBP Hedged)
	NZD10,000 initial and NZD5,000 subsequent (for Class A2 MDis NZD Hedged)
	SGD10,000 initial and SGD5,000 subsequent (for Class A Acc SGD Hedged and Class A2 MDis SGD Hedged)
	RMB60,000 initial, and RMB30,000 subsequent (for Class A Acc RMB Unhedged, Class A Acc RMB Hedged, Class A2 MDis RMB Unhedged and Class A2 MDis RMB Hedged)
	JPY1,000,000 initial and JPY500,000 subsequent (for Class A Acc JPY Hedged and Class A2 MDis JPY Hedged)
<b>Financial year-end of this Trust:</b>	31 December

- # *The ongoing charges figure is expressed as a percentage of the sum of expenses over the average net asset value of the class of units for the corresponding period as described below. This figure may vary from year to year. The performance fees to be paid as at year end, where applicable, may vary subject to market conditions. Information is updated as at 27 March 2024.*
- \* *As the class of units is not launched yet, the ongoing charges figure is an estimate only and this figure is based on the ongoing charge figure of Class A Acc HKD Hedged with similar fee structure for the relevant financial period. The actual ongoing charges figure may be different from the estimate and may vary from year to year.*
- \*\* *As the class of units is not launched yet, the ongoing charges figure is an estimate only and this figure is based on the ongoing charge figure of Class A2 MDis AUD Hedged with similar fee structure for the relevant financial period. The actual ongoing charges figure may be different from the estimate and may vary from year to year.*
- ^ *No performance fee is payable for the year ended 31 December 2023.*
- β *This figure is based on the expenses for the year ended 31 December 2023.*

## What is this product?

The Trust was originally a unit trust constituted under the laws of the Cayman Islands. With effect on and from 22 April 2016, the jurisdiction of the Trust was changed from the Cayman Islands to Hong Kong.

## Objectives and Investment Strategy

### Objectives

The Trust aims to provide capital appreciation to unitholders by investing primarily (i.e. not less than 70% of the Trust's NAV) in a portfolio of relatively higher yielding debt and equity securities in the Asian region. The Trust will concentrate on investing in interest-bearing or dividend-distributing debt and equity securities of companies or issuers listed in the Asian markets. There are no fixed geographical, sectoral or industry weightings in the allocation of assets and the Manager does not intend to follow benchmark indices in determining the geographical, sectoral or industry weightings of the Trust. For the avoidance of doubt, not less than 70% of the Trust's NAV will be invested in equity securities.

**Strategy**

The Trust may invest in securities issued by companies of any market size and in such proportions as the Manager deems appropriate. Debt and equity securities that the Trust may invest in include but are not limited to listed debt securities, bonds, sovereign debts, listed equities, real estate investment trusts (“REITs”), and Exchange Traded Funds (“ETFs”).

The Manager may invest in debt securities which (or the issuers of which) are below investment grade or unrated and investors should be aware of the greater risks which may be involved in investing in these securities. A debt security which is rated below investment grade is defined as a debt security which (or the issuer of which) is rated below BBB-/Baa3 by an internationally recognised credit rating agency (such as Standard & Poor’s, Moody’s and/or Fitch); and an “unrated” debt security is defined as a debt security which neither the security itself nor its issuer has a credit rating. The Manager may invest not more than 30% of the Trust’s latest available NAV in debt securities which (or the issuers of which) are below investment grade or unrated. In addition, the Trust’s assets may from time to time include cash, deposits, short-term papers, such as treasury bills, certificates of deposit, banker’s acceptances, short-term commercial paper and other fixed income instruments. However, the Trust will not invest more than 10% of its NAV in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade. The Manager may also place a substantial portion of the portfolio in cash or cash equivalents. Under exceptional circumstances (e.g. market crash or major crisis), the Trust may be invested temporarily up to 100% in liquid assets such as deposits, treasury bills, certificates of deposit.

The Trust may invest in China A Shares via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively the “Stock Connects”), China A Shares Access Products (“CAAPs”) and/or collective investment schemes directly investing in China A Shares through qualified foreign institutional investors (“QFIIs”) or Renminbi qualified foreign institutional investors (“RQFIIs”) (“A Shares CIS”). The investment in China A Shares through the Stock Connects, CAAPs and A Shares CIS is subject to a maximum exposure of 20% of the Trust’s latest available NAV and not more than 10% of the Trust’s latest available NAV may be invested in CAAPs issued by any single CAAP Issuer.

The aggregate exposure to China A Shares and China B Shares will not exceed 20% of the Trust’s latest available NAV.

For the avoidance of doubt, the Trust will not in aggregate invest more than 20% of its latest available NAV in the Mainland China market.

The Trust will have a limited exposure to investments denominated in RMB. Assets of the Trust denominated in RMB are valued with reference to the CNH rate. Under the current regulations, the rate at which RMB may be exchanged outside Mainland China (in the case of Hong Kong, the “CNH” rate) may be different from the exchange rate within Mainland China (the “CNY” rate). Please refer to the offering document for details.

To the extent permitted by the SFC’s Code on Unit Trusts and Mutual Funds and the provisions set out under the section “2.7 Investment Restrictions” in the Explanatory Memorandum, the Trust may also, on an ancillary basis, invest less than 30% of its NAV in futures contracts, options, depository receipts, warrants, convertible bonds and units in any unit trust or shares in any mutual fund corporation or any other collective investment scheme. For the purposes of hedging market and currency risks, the Trust may invest in index and currency swaps and currency forwards.

The Trust does not invest in any asset backed securities (including asset backed commercial papers) or mortgage backed securities for hedging or non-hedging purposes. Nor does the Trust intend to engage in sale and repurchase transactions and reverse repurchase transactions. However, the Trust may enter into securities lending arrangements provided that the value of the securities to be loaned, together with the value of all other securities which are the subject of a loan by the Trust does not exceed 10% of its latest available NAV.

\* *The SFC’s authorisation is not a recommendation or endorsement of a collective investment scheme nor does it guarantee the commercial merits of such collective investment scheme or its performance. It does not mean the collective investment scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or classes of investors.*

**Use of Derivatives / investment in derivatives**

The Trust’s net derivative exposure may be up to 50 % of the Trust’s Net Asset Value.

## What are the key risks?

Investment involves risks. Please refer to the offering document for details including the risk factors.

### 1. Investment risk

- The Trust is an investment fund. The Trust's investment portfolio may fall in value due to any of the key risk factors below and therefore you may lose a substantial proportion or all of your investment in the Trust. There is no guarantee of the repayment of principal.

### 2. Geographical concentration risk

- The concentration of the Trust's investments in Asian markets may result in greater volatility in the value of the Trust than more diverse portfolios which comprise broad-based global investments.
- The value of the Trust may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Asian market.

### 3. Emerging markets risk

- Investing in emerging markets involves certain increased risks and special considerations not typically associated with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange risks/controls, liquidity, settlement, custody, legal and regulatory risk, and the likelihood of higher degree of volatility.

### 4. Equity risk

- The Trust's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.
- To achieve the investment objective, the Trust may invest in high dividend stocks. There is no guarantee that dividends will be declared by such companies. Also investors should not expect the dividend policy of such companies is tantamount to the dividend policy of the Trust.

### 5. Risk associated with high volatility of the equity market in the Asia region

- High market volatility and potential settlement difficulties in the markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Trust.

### 6. Risk associated with regulatory/exchanges requirements/policies of the equity market in the Asian region

- Securities exchanges in the Asian region typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Trust.

### 7. Risks associated with investment in Mainland China

- Imposition of additional governmental restrictions, change in the policies and/or implementation of measures to prevent overheating of the economy in the Mainland China may have an adverse impact on the performance of the Trust.

### 8. Risks relating to China A Shares market

- The China A Shares market may be more volatile and unstable (for example, due to the risk of suspension of a particular stock or government intervention).
- Market volatility and potential lack of liquidity due to low trading volume in the China A Shares markets may result in prices of securities traded on such markets fluctuating significantly resulting in substantial changes in the NAV of the Trust.

**9. Risk relating to debt securities**

- *Credit risk* - The Trust may be subject to the risk that an issuer will fail to make principal and interest payments when due, which may lead to a default and, ultimately, a fall in the value of the Trust.
- *Interest rate risk* - The Trust may invest in fixed income securities which are subject to interest rate risk. A fixed income security's value will decrease in value when interest rates rise.
- *Volatility and liquidity risk* - The debt securities in markets that the Trust invests in may be subject to higher volatility and lower liquidity compared to more developed markets. It is possible that there may be no liquidity for certain securities that the Trust may invest in, in particular debt securities and securities that are not listed on a recognised stock exchange. The Trust's ability to sell or liquidate investments at favourable times or for favourable prices may be restricted. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Trust may incur significant trading costs. As a result, the Trust's value will be adversely affected.
- *Credit rating downgrading risk* - Investment grade securities may be subject to the risk of being downgraded to below investment grade securities, and its issuer's credit rating may also subsequently be downgraded. The Trust's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the Trust.
- *Unrated or below investment grade and high yielding debt securities risk* - The Trust may invest in high yielding securities which (or the issuers of which) may be unrated or rated below investment grade. Such investments are considered to have a higher credit risk, lower liquidity, higher volatility and greater possibility of default than securities which are investment grade with respect to payment of interest and the return of principal.
- *Valuation risk* – Valuation of the Trust's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the NAV calculation of the Trust.
- *Credit rating risk* – Credit ratings assigned by credit agencies are subject to limitations and do not guarantee the creditworthiness of the issuers.

**10. Foreign exchange risk**

- The Trust is denominated in US dollars but may issue classes of units denominated in a currency other than its base currency. In addition, the Trust may invest in assets that are denominated in a currency other than its base currency or the relevant class currency. The NAV of the Trust may therefore be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

**11. Risks relating to currency hedging and the currency hedged classes (“Currency Hedged Classes”)**

- The Manager may (but is not obliged to) enter into certain currency related transactions in order to hedge the currency exposure of the assets of the Trust attributable to a particular class into the class currency of the relevant class. Investors in the Currency Hedged Classes may have exposure to currencies other than the currency of that Currency Hedged Class. Investors should also be aware that the hedging strategy may substantially limit the benefits of any potential increase in value of a Currency Hedged Class expressed in the class currency, if the Currency Hedged Class' denominating currency falls against the base currency of the Trust.
- The precise hedging strategy applied to a particular Currency Hedged Class may vary. In addition, there is no guarantee that the desired hedging instruments will be available or hedging strategy will achieve its desired result. In such circumstances, investors of the Currency Hedged Class may still be subject to the currency exchange risk on an unhedged basis.
- If the counterparties of the instruments used for hedging purposes default, investors of the Currency Hedged Classes may be exposed to the currency exchange risk on an unhedged basis and may therefore suffer further losses.

**12. Performance fee risk**

- The performance fee payable to the Manager may create an incentive for the Manager to make investments that are riskier or more speculative than would be the case in the absence of a performance fee.
- There is no adjustment of equalisation credit or equalisation losses on an individual unitholder basis. A unitholder redeeming units may still incur performance fee in respect of the units, even though a loss in investment capital has been suffered by the redeeming unitholder.
- In addition, performance fees may be paid on unrealised gains which may never be realised by the Trust.

**13. Risks associated with RMB Classes of Units**

- Investors may invest in Class A Acc RMB Unhedged, Class A Acc RMB Hedged, Class A2 MDis RMB Unhedged, Class A2 MDis RMB Hedged (“**RMB classes**”). It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government.
- Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors’ base currencies will not depreciate. Any depreciation of the RMB could adversely affect the investors’ investments in the Trust.
- Although offshore RMB (“**CNH**”) and onshore RMB (“**CNY**”) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.
- Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

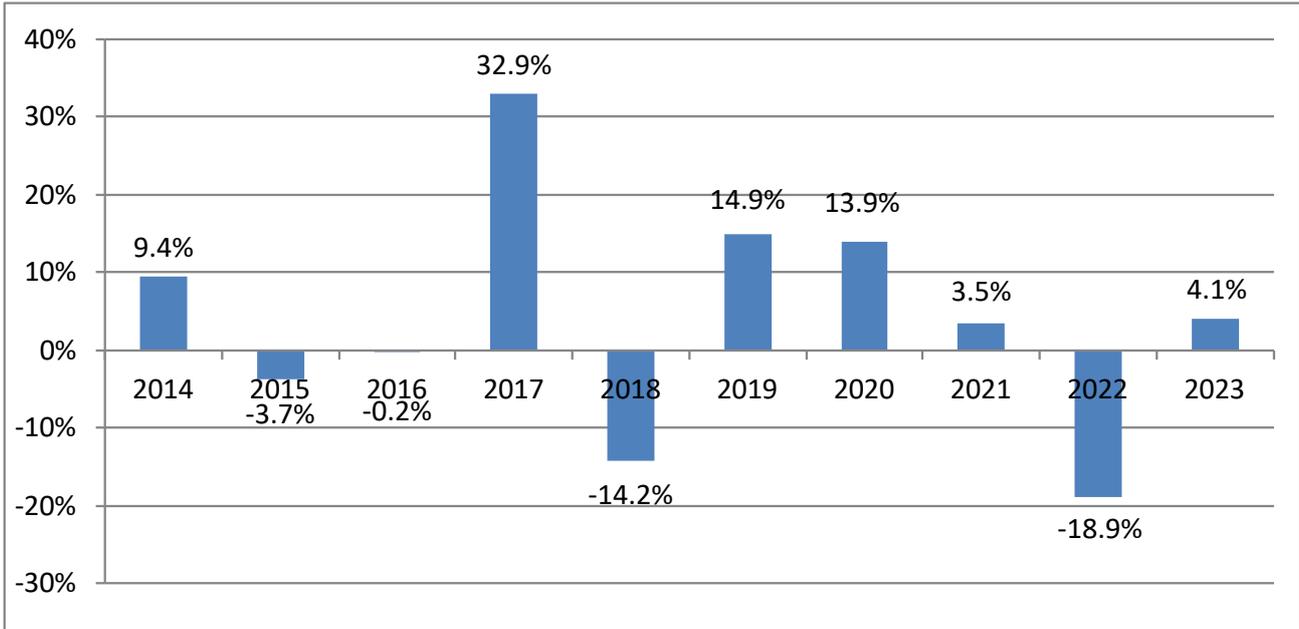
**14. Risks associated with investments in financial derivative instruments**

- Risks associated with derivative instruments include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/ component of a derivative instrument and adverse changes in the value or level of the underlying asset, rate or index can result in a loss significantly greater than the amount invested in the derivative instrument itself. Exposure to derivative instruments may lead to a high risk of significant loss by the Trust.

**15. Dividend risk and risk relating to dividends paid out of capital**

- There is neither guarantee of distribution/dividend payments nor distribution rate or dividend yield.
- Payment of dividends out of capital represents a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to the original investment. Any such distributions may result in an immediate reduction of the NAV per unit of the Trust.
- The distribution amount and NAV of the Currency Hedged Classes may be adversely affected by differences in the interest rates of the reference currency of the Currency Hedged Classes and the Trust’s base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged classes.
- The Manager may amend the distribution policy subject to obtaining the SFC’s prior approval and by giving not less than one month’s prior notice to unitholders.

### How has the Trust performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividend reinvested.
- These figures show by how much Class A1 increased or decreased in value during the calendar year being shown. Performance data has been calculated in US\$ including ongoing charges and excluding subscription fee and redemption fee you might have to pay.
- Trust launch date: 2 September 2002
- Class A1 launch date: 2 September 2002
- Class A1 has the longest history and is broadly indicative of the Trust's performance characteristics.

### Is there any guarantee?

This Trust does not have any guarantees. You may not get back the full amount of money you invest.

### What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the units of the Trust.

Fee	What you pay
Subscription fee (Preliminary Charge)	Up to 5% of the subscription monies
Switching fee	Nil*
Redemption fee	Nil

\* Certain distributors may impose a charge for each switching of units acquired through it for units in another class, which will be deducted at the time of the switching and paid to the relevant distributor. Unitholders who intend to switch their units from one class to units in another class should check with their respective distributors for the charge on switching.

## Ongoing fees payable by the Trust

The following expenses will be paid out of the Trust. They affect you because they reduce the return you get on your investments.

	<b>Annual rate (as a % of the Trust's NAV)</b>
<b>Management fee</b>	1.25%*
<b>Trustee fees</b>	First US\$150 million of the Trust's NAV.....0.135%*
	Next US\$650 million of the Trust's NAV..... 0.13%
<b>(Including fees of the Custodian and Registrar)</b>	Thereafter.....0.125%
	The trustee fees are subject to a monthly minimum of US\$4,500.
<b>Performance fee</b>	15% of the appreciation in the NAV per unit in the relevant class (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of the relevant performance period(s) since the last performance fee is crystallised and paid) in the relevant performance period over the high water mark calculated annually on a high-on-high basis.
	<ul style="list-style-type: none"> <li>• High water mark is initially set at the initial issue price of the relevant class.</li> <li>• Each performance period corresponds to the financial year of the Trust.</li> <li>• Where a performance fee is payable to the Manager for a performance period, the NAV per unit of that class (after deduction of performance fee and any distribution declared or paid) on the last valuation day of that performance period will be set as the high water mark for the next performance period.</li> <li>• For details and illustrative examples of the performance fee calculation, please refer to the section headed "Performance Fee" in the Trust's offering document.</li> </ul>
<b>Other fees</b>	You may have to pay other fees when dealing in the units of the Trust.

\* *Please note that some fees may be increased up to a specified permitted maximum on giving unitholders at least one month's prior notice. Please refer to the section of the offering document entitled "Fees and Expenses" for further details of the fees and charges payable and the permitted maximum of such fees, as well as other ongoing expenses that may be borne by the Trust.*

## Additional information

- You generally buy and redeem units at the Trust's next-determined NAV after the administrator receives your request, directly or via a distributor, in good order at or before 5:00 p.m. (Hong Kong time), being the Trust's dealing cut-off time on each dealing day of the Trust. Before placing your subscription or redemption orders, please check with your distributor for the distributor's internal dealing cut-off time (which may be earlier than the Trust's dealing cut-off time).
- The NAV of the Trust is calculated and the price of units of each of the classes which are offered to the retail public of Hong Kong is published on each business day on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com). This website has not been reviewed or authorized by the SFC.
- Investors may obtain the past performance information of other unit classes offered to Hong Kong investors from [www.valuepartners-group.com](http://www.valuepartners-group.com). This website has not been reviewed or authorized by the SFC.
- Investors may obtain information on the distributor(s) appointed in respect of the Trust by making a telephone enquiry with the Manager on (852) 2143 0688.
- Where dividends comprise amounts from both income and capital, the composition of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available by the Manager on request and also on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com). This website has not been reviewed or authorized by the SFC.

## Important

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND  
**EXPLANATORY MEMORANDUM**



# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

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# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

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# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

**Important: If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial advice.**

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omissions of which would make any statement misleading.

**Value Partners High-Dividend Stocks Fund** (the “Trust”) is an open-ended unit trust originally constituted under the laws of the Cayman Islands by a trust deed dated 7 August 2002, as amended from time to time and was regulated by the Cayman Islands Monetary Authority in the Cayman Islands.

The Trust is authorised by the Securities and Futures Commission, whose current address is at 35th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong (the “SFC”) under Section 104 of the Hong Kong Securities and Futures Ordinance. SFC authorisation is not a recommendation or endorsement of the Trust nor does it guarantee the commercial merits of the Trust or its performance. It does not mean the Trust is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. In giving such authorisation the SFC does not take responsibility for the financial soundness of the Trust or for the correctness of any statements made or opinions expressed in this regard.

This Explanatory Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Persons interested in acquiring Units in the Trust should inform themselves as to:

- (i) the legal requirements within the jurisdictions of their nationality, residence, ordinary residence or domicile for such acquisition;
- (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition or sale of Units; and
- (iii) any taxation consequences which might be relevant to the acquisition, holding or disposal of Units.

Distribution of this Explanatory Memorandum is not authorised unless it is accompanied by a copy of the latest published annual report of the Trust and, if later, a copy of its most recent interim report, each of which will be deemed to form part of this Explanatory Memorandum.

# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

The Units of the Trust (“Units”) are offered on the basis of the information and representations contained in this Explanatory Memorandum and any accompanying financial information. Any further information given or representations made by any dealer, salesman or other person must not be relied upon as being authorised by the Trustee or the Manager. No person has been authorised to give any information or to make any representation other than those contained in this Explanatory Memorandum and in the documents mentioned in it. Neither the delivery of this Explanatory Memorandum nor the issue of Units will under any circumstances create any implication that there has been no change in the affairs of the Trust since the date of this Explanatory Memorandum.

The Trust is not registered as an investment company with the U.S. Securities and Exchange Commission. Units in the Trust have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or any other U.S. federal or state law, and Units in the Trust are not offered or sold to, and may not be transferred to or acquired by, U.S. persons (including, without limitation, U.S. residents, as well as business entities organised under U.S. law), except pursuant to an exemption available under the Securities Act.

The Manager is exempt from registration with the United States Commodity Futures Trading Commission (“CFTC”), and is not registered with the U.S. CFTC as a commodity pool operator (“CPO”), in respect of the Trust pursuant to an exemption under U.S. CFTC rule 4.13(a)(3) and the Manager is not registered with the CFTC as a commodity trading adviser (“CTA”) pursuant to rule 4.14(a)(8) for pools (a) whose interests are exempt from registration under the Securities Act and are offered and sold without marketing to the public in the United States, (b) whose participants are limited to certain qualified eligible persons including Qualified Purchasers and Accredited Investors and (c) satisfy the other criteria in CFTC Rule 4.14(a)(8). To maintain the exemptions provided by CFTC Rule 4.13(a)(3), the Manager will not (x) commit more than 5 per cent. of the Trust’s liquidation value, taking into account unrealised profits or loss on such positions to establish commodity interest positions or (y) permit the net notional value of the Trust’s commodity interests positions to exceed 100 per cent. of the Trust’s liquidation value, taking into account unrealised profits or loss on such positions. Therefore, unlike a commodity pool operated by a registered CPO, there is no obligation imposed by the CFTC on the Manager to deliver a disclosure document (as defined in the CFTC Rules) or a certified annual report to investors. The CFTC does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of an offering memorandum. Consequently, the CFTC has not reviewed or approved this offering or this Explanatory Memorandum.

**It should be appreciated that the value of the Units and the income, if any, from them may fall as well as rise and that, accordingly, the amount redeemed by an investor on the redemption of Units may be less than the original investment made. It should also be appreciated that changes in the rates of exchange between currencies may cause the value of Units to diminish or increase in terms of the currencies of the jurisdictions in which the Unitholder may be located.**

January 2020

# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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## For Singapore Prospective Investors

The Trust has been entered onto the list of restricted schemes maintained by the Monetary Authority of Singapore (“**MAS**”) pursuant to section 305 of the Securities and Futures Act, Chapter 289 of Singapore (“**SFA**”).

The offer or invitation of the units of the Trust, which is the subject of this Explanatory Memorandum, are not authorised or recognised by the MAS and the Trust’s Units are not allowed to be offered to the retail public. Neither this Explanatory Memorandum and any other document nor material issued in connection with the offer or sale is a prospectus as defined in the SFA. Accordingly statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you in light of your own personal circumstances.

This Explanatory Memorandum has not been registered as a prospectus with the MAS. Accordingly this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of units of the Trust may not be circulated or distributed, nor may such Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A(1)(c) of the SFA) (each an “**Institutional Investor**”), (ii) to a relevant person as defined in Section 305 of the SFA or any person pursuant to an offer referred to in Section 305(2) of the SFA (each a “**Relevant Investor**”) and in accordance with the conditions specified in Section 305 of the SFA, or (iii) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Subject to all other restrictions on transferability imposed by the Trust, recipients of this Explanatory Memorandum represent and warrant that where the Units are initially acquired pursuant to an offer made in reliance on an exemption under:

- (a) Section 304 of the SFA by an Institutional Investor, subsequent sales of the Units may only be made to another Institutional Investor; and
- (b) Section 305 of the SFA by a Relevant Investor, subsequent sales of the Units may only be made to an Institutional Investor or another Relevant Investor.

In addition, it should be noted that where the Units are initially subscribed or purchased in Singapore under Section 305 of the SFA by:

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- (1) a corporation referred to in Section 305A(2) of the SFA (a “**Relevant Corporation**”), the securities of the Relevant Corporation shall not be transferred within 6 months after the Relevant Corporation has acquired any Units unless the transfer is in accordance with the conditions of Section 305A(2) of the SFA; or
- (2) a trust referred to in Section 305A(3) of the SFA (a “**Relevant Trust**”), the rights and interest (howsoever described) of the beneficiaries thereof in the Relevant Trust shall not be transferred within 6 months after any Units have been acquired for the Relevant Trust unless the transfer is in accordance with the conditions of Section 305A(3) of the SFA.

Investors are required to ensure that any of their own transfer arrangements in relation to the units of the Trust comply with the above restrictions and should seek legal advice to ensure compliance with the same.

Solely for the purposes of its obligations pursuant to Section 309B of the SFA, the Trust has determined, and hereby notifies all relevant persons (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (“**CMP Regulations 2018**”)), that the interests are capital markets products other than prescribed capital markets products (as defined in Section 309B of the SFA).

This Explanatory Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

Investors in Singapore should note that if they wish to obtain information on the past performance and a copy of the annual report of the Trust they should contact the relevant distributors to obtain such information.

## **Enquiries or complaints**

Investors may contact the Manager for any queries or complaints in relation to the Trust. To contact the Manager, investors may either write to the Manager’s address at 43rd Floor, The Center, 99 Queen’s Road Central, Hong Kong, or contact the Fund Investor Services team of the Manager by telephone at (852) 2143 0688. The Manager will respond to the enquiry or complaint as soon as practicable.

# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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## 1. MANAGEMENT AND ADMINISTRATION

### *Manager*

#### **Value Partners Hong Kong Limited**

43rd Floor  
The Center  
99 Queen's Road Central  
Hong Kong

Telephone: (852) 2880 9263  
Fax: (852) 2565 7975  
Email: [vp1@vp.com.hk](mailto:vp1@vp.com.hk)  
Website: [www.valuepartners-group.com](http://www.valuepartners-group.com)  
Fund Investor Services hotline: (852) 2143 0688  
Fund Investor Services email: [fis@vp.com.hk](mailto:fis@vp.com.hk)

### *Trustee, Administrator, Custodian*

#### **HSBC Institutional Trust Services (Asia) Limited**

1 Queen's Road Central  
Hong Kong

### *Registrar*

#### **HSBC Trustee (Cayman) Limited**

Principal address: Strathvale House, 90 North Church Street, George Town  
Registered address: P.O. Box 309, Ugland House, George Town  
Grand Cayman  
KY1-1104  
Cayman Islands

### *Auditor*

#### **PricewaterhouseCoopers**

22nd Floor, Prince's Building  
Central  
Hong Kong

### *Legal Advisers*

#### **Deacons**

5/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong

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## 1.1 Manager

**Value Partners Hong Kong Limited** (the “**Manager**”) was incorporated in Hong Kong on 10 May 1999 and commenced its current operations in January 2008. It is licensed by the SFC for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the Hong Kong Securities and Futures Ordinance.

The Manager may, at its discretion and subject to the prior approval of the SFC, appoint one or more investment delegates (i.e. an entity that is delegated with the investment management function of all or part of the assets of the Trust), investment advisers and other agents to provide it with assistance in its management of the investments of the Trust.

The Directors of the Manager are:

### *Dato’ Seri CHEAH Cheng Hye*

Dato’ Seri CHEAH Cheng Hye is Co-Chairman and Co-Chief Investment Officer (“**Co-CIO**”) of Value Partners Group Limited (“**Value Partners**”). He is in charge of Value Partners’ fund management and investment research, business operations, product development and corporate management. He sets Value Partners’ overall business and portfolio strategy.

Dato’ Seri CHEAH has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm’s funds and business operation. He led Value Partners to a successful listing on the Main Board of The Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato’ Seri CHEAH has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 200 professional awards and prizes since the firm’s inception in 1993.

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Dato' Seri CHEAH currently serves as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited (“**HKEX**”), a member of The Hong Kong University of Science and Technology (“**HKUST**”) Business School Advisory Council, as well as Co-Chairman of The Malaysian Chamber of Commerce (Hong Kong and Macau). He was previously a member of the Financial Services Development Council (“**FSDC**”) (from February 2015 to January 2019), and a member of the New Business Committee of FSDC (from 2013 to 2018). FSDC is a high-level, cross-sector advisory body established by the Hong Kong Special Administrative Region Government.

In August 2016, Dato' Seri CHEAH was conferred Darjah Gemilang Pangkuan Negeri (“**DGPN**”), one of the highest civil honours granted by the state of Penang in Malaysia to recognize exceptional individuals. The DGPN award comes with the title of “Dato' Seri”. In 2013, he was conferred Darjah Setia Pangkuan Negeri (“**DSPN**”) with the title of “Dato' ”. In the same year, he was named an Honorary Fellow of the HKUST for outstanding achievements.

Dato' Seri CHEAH was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark, and the co-winner of “CIO of the Year in Asia” along with Mr. Louis SO in the 2011 Best of the Best Awards by Asia Asset Management. In 2010, he was named by AsianInvestor as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by AsianInvestor as one of the 25 Most Influential People in Asian Asset Management. He was also named “Capital Markets Person of the Year” by FinanceAsia in 2007, and in 2003, he was voted the “Most Astute Investor” in the Asset Benchmark Survey.

Prior to starting Value Partners, Dato' Seri CHEAH worked at Morgan Grenfell Group in Hong Kong, where, in 1989, he founded the company's Hong Kong/China equities research department as the Head of Research and proprietary trader for the firm. Prior to this, he was a financial journalist with the Asian Wall Street Journal and Far Eastern Economic Review, where he reported on business and financial news across East and Southeast Asia markets. Dato' Seri CHEAH served for nine years (1993 to 2002) as an independent non-executive director of Hong Kong-listed JCG Holdings, a leading microfinance company (a subsidiary of Public Bank Malaysia renamed from 2006 as Public Financial Holdings).

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## *SO Chun Ki Louis*

Mr. Louis SO is Co-Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners. He works closely with Dato’ Seri CHEAH Cheng Hye on all aspects of providing leadership to Value Partners, including overseeing all group affairs and activities, daily operations and management of the firm’s investment management team. Mr. SO holds a leadership role in Value Partners’ investment process, including a high degree of responsibility over portfolio management.

Mr. SO has 20 years of experience in the financial industry, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. He was appointed Co-Chairman of Value Partners with effect from 26 April 2019. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team.

Mr. SO was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of “CIO of the Year in Asia” award alongside Dato’ Seri CHEAH Cheng Hye.

Mr. SO graduated from the University of Auckland in New Zealand with a Bachelor’s degree in Commerce and obtained a Master’s degree in Commerce from the University of New South Wales in Australia.

## *HO Man Kei, Norman*

Mr. Norman HO is a Senior Investment Director of Value Partners, where he is a leader in Value Partners’ investment process, with a high degree of responsibility over portfolio management. Mr. HO is a member of the Board of Directors of Value Partners Group, and is also a director of certain subsidiaries of the Group.

Mr. HO has extensive experience in the fund management and investment industry, with a focus on research and portfolio management. Mr. HO joined Value Partners in November 1995. He was promoted to the roles of Investment Director and Senior Investment Director in 2010 and January 2014, respectively. Prior to joining Value Partners, he was an Executive with Dao Heng Securities Limited and had started his career with Ernst & Young.

Mr. HO graduated with a Bachelor’s degree in Social Sciences (majoring in Management Studies) from The University of Hong Kong. He is a CFA charterholder.

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## 1.2 Trustee, Administrator and Custodian

HSBC Institutional Trust Services (Asia) Limited (the “**Trustee**”) was incorporated in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance in Hong Kong. The Trustee is indirectly a wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales. The HSBC Group is one of the largest banking and financial services organisation in the world with well-established businesses in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments and cash and other assets forming part of the assets of the Trust and hold them in trust for the Unitholders (as defined below) in accordance with the provisions of the Trust Deed. All investments, monies and other properties which ought in accordance with the provisions of the Trust Deed to form part of the Trust shall be paid or transferred to or to the order of the Trustee without delay on receipt by the Manager. All such investments, monies and other properties from time to time comprised in the Trust (and whether in bearer or registered form) shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping of such investments, monies and other properties. Subject as otherwise provided in the Trust Deed, the Trustee, to the extent permitted by law, shall register all cash and registrable assets from time to time comprised in the Trust in the name of or to the order of the Trustee. The Trustee shall in respect of any investments or other properties of the Trust which by nature cannot be held in custody, maintain a proper record of such investments or properties in its books under the name of the Trust.

## 1.3 Registrar

HSBC Trustee (Cayman) Limited, a company incorporated in the Cayman Islands, has been appointed as the registrar to the Trust (the “**Registrar**”). The Registrar is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

## 1.4 Auditor

PricewaterhouseCoopers has been retained as the independent auditors of the Trust. The terms of engagement of the auditors provide that, except where finally determined to have resulted from the wilful or intentional neglect or misconduct or fraudulent behaviour of the auditors, the auditors’ maximum liability to the Trust for any reason relating to their services is limited to three times the fees paid by the Trust to the auditors for the services or work product giving rise to liability.

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## 2. INFORMATION ON THE TRUST

Units of the relevant Class are available for subscription at their prevailing Issue Price, subject to a Preliminary Charge of up to 5.0 per cent. of the Issue Price. Details are set out in section 3.3 of this Explanatory Memorandum.

### 2.1 Trust Structure

The Trust is an open-ended unit trust originally established under the laws of the Cayman Islands in the name of Value Partners Asian High Yield Fund pursuant to the trust deed dated 2 August 2002 (the “**Original Deed**”). Pursuant to the Second Supplemental Trust Deed dated 10 April 2003 (the “**Second Supplemental Deed**”), its name was changed to Value Partners High-Dividend Stocks Fund. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 31 March 2016 (the “**First Deed of Retirement and Appointment**”), the Trust changed its domicile from the Cayman Islands to Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of Bank of Bermuda (Cayman) Limited with effect from 22 April 2016. Pursuant to a Deed of Retirement and Appointment of the Manager dated 31 March 2016 (the “**Second Deed of Retirement and Appointment**”), Value Partners Hong Kong Limited was appointed as manager in place of Value Partners Limited with effect from 22 April 2016. The Original Deed was amended and restated by a supplemental deed dated 1 January 2020 (the “**Supplemental Deed**”). The Original Deed, the Second Supplemental Deed, the First Deed of Retirement and Appointment, the Second Deed of Retirement and Appointment and the Supplemental Deed shall collectively be referred to as the “**Trust Deed**”.

The Trust may offer units (“**Units**”) to investors (“**Unitholders**”) on a continuing basis at the Issue Price of the relevant class (“**Class**”) of Units of the Trust. Units may be issued in different Classes. Each Class of Units may be subject to different terms, including but not limited to, the amount of minimum subscription, the minimum holding, the charges payable on subscription, redemption or conversion of Units, the fees payable to the various service providers of the Trust, and the distributions and other benefits (if any) payable to Unitholders. Except as otherwise provided for in this Explanatory Memorandum or in the Trust Deed, Unitholders have the right to have their Units redeemed at the Redemption Price of the relevant Class of Units.

The Trust currently offers the following Classes of Units for subscription at their prevailing Issue Prices (which will not necessarily be the same as the Issue Price of Units in other Classes of Units):

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- Class A Acc HKD Hedged
- Class A Acc JPY Hedged
- Class A Acc RMB Unhedged
- Class A Acc RMB Hedged
- Class A Acc SGD Hedged
- Class A1
- Class A2 MDis
- Class A2 MDis HKD
- Class A2 MDis AUD Hedged
- Class A2 MDis CAD Hedged
- Class A2 MDis GBP Hedged
- Class A2 MDis NZD Hedged
- Class A2 MDis HKD Hedged
- Class A2 MDis JPY Hedged
- Class A2 MDis SGD Hedged
- Class A2 MDis RMB Unhedged
- Class A2 MDis RMB Hedged
- Class X Acc USD Unhedged
- Class X MDis USD Unhedged
- Class Z

The Class X Acc USD Unhedged and Class X MDis USD Unhedged Units are only available for subscription by funds and managed accounts managed by the Manager or Connected Person (as defined below) of the Manager who are “professional investors” as defined in the Hong Kong Securities and Futures Ordinance or offered on a private placement basis.

Class X Acc USD Unhedged and Class X MDis USD Unhedged Units are collectively referred to as “Class X Units” in this Explanatory Memorandum.

The Manager has also established P Classes of Units for offering to investors in Mainland China only and will not be offered in Hong Kong.

For the purpose of this Explanatory Memorandum, “Mainland China” means all customs territory of the People’s Republic of China (“PRC”).

Investors in Mainland China should refer to the supplementary offering document of the Trust distributed in Mainland China (the “**Mainland China supplement**”) for details in relation to P Classes of Units.

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Units in new Classes may be offered for investment during the relevant initial offer periods of the new Classes as agreed between the Manager and the Trustee and thereafter, as determined by the Manager with the prior approval of the Trustee and set out in the Explanatory Memorandum as amended or supplemented from time to time. Prospective investors should check with the Manager as to which Classes are currently available for investment.

Details are set out in section 3.1 of this Explanatory Memorandum.

## 2.2 Investment Objective and Policy

The investment objective of the Trust is to provide capital appreciation to Unitholders by investing primarily (i.e. not less than 70 per cent. of the Trust's Net Asset Value) in a portfolio of relatively higher yielding debt and equity securities in the Asian region.

The Trust will concentrate on investing in interest-bearing or dividend-distributing debt and equity securities of companies or issuers listed in the Asian markets, established in or operating principally in the Asian region or which, in the opinion of the Manager, derive a significant proportion of their earnings or revenues from Asia. There are no fixed geographical, sectoral or industry weightings in the allocation of assets and the Manager does not intend to follow benchmark indices in determining the geographical, sectoral or industry weightings of the Trust. For the avoidance of doubt, not less than 70 per cent. of the Trust's Net Asset Value will be invested in equity securities.

The Trust may invest in securities issued by companies of any market size and in such proportions as the Manager deems appropriate. Debt and equity securities that the Trust may invest in include but are not limited to listed debt securities, bonds, sovereign debts, listed equities, real estate investment trusts (“REITs”), and Exchange Traded Funds (“ETFs”).

The Manager will use value investing strategies and a bottom-up research approach to select high income investments consistent with the Trust's investment objective. The Manager will aim to follow a buy-and-hold strategy to lower portfolio turnover to maximise the yield from investments.

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The Manager may invest in debt securities which (or the issuers of which) are below investment grade or unrated and investors should be aware of the greater risks which may be involved in investing in these securities. A debt security which is rated below investment grade is defined as a debt security which (or the issuer of which) is rated below BBB-/Baa3 by an internationally recognised credit rating agency (such as Standard & Poor's, Moody's and/or Fitch); and an "unrated" debt security is defined as a debt security which neither the security itself nor its issuer has a credit rating. The Manager may invest not more than 30 per cent. of the Trust's latest available Net Asset Value in debt securities which (or the issuers of which) are below investment grade or unrated. In addition, the Trust's assets may from time to time include cash, deposits, short-term papers, such as treasury bills, certificates of deposit, banker's acceptances, short-term commercial paper and other fixed income instruments. However, the Trust will not invest more than 10 per cent. of its Net Asset Value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade. The Manager may also place a substantial portion of the portfolio in cash or cash equivalents. Under exceptional circumstances (e.g. market crash or major crisis), the Trust may be invested temporarily up to 100 per cent. in liquid assets such as deposits, treasury bills, certificates of deposit.

The Trust may invest in China A Shares via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively the "Stock Connects"), China A Shares Access Products ("CAAPs") and/ or collective investment schemes directly investing in China A Shares through qualified foreign institutional investors ("QFIIs") or Renminbi qualified foreign institutional investors ("RQFIIs") ("A Shares CIS"). The investment in China A Shares through the Stock Connects, CAAPs and A Shares CIS is subject to a maximum exposure of 20 per cent. of the Trust's latest available Net Asset Value and not more than 10 per cent. of the Trust's latest available Net Asset Value may be invested in CAAPs issued by any single CAAP Issuer.

The aggregate exposure to China A Shares and China B Shares will not exceed 20 per cent. of the Trust's latest available Net Asset Value.

For the avoidance of doubt, the Trust will not in aggregate invest more than 20 per cent. of its latest available Net Asset Value in the Mainland China market.

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The Trust will have a limited exposure to investments denominated in RMB. Assets of the Trust denominated in RMB are valued with reference to the CNH rate. Under the current regulations, the rate at which RMB may be exchanged outside Mainland China (in the case of Hong Kong, the “CNH” rate) may be different from the exchange rate within Mainland China (the “CNY” rate). While the CNH rate and the CNY rate represent the same currency, they are traded in different and separate markets which operate independently. As such, the CNH rate does not necessarily have the same exchange rate and may not move in the same direction as the CNY rate.

To the extent permitted by the Code on Unit Trusts and Mutual Funds (the “Code”) and the provisions set out under the section “2.7 Investment Restrictions” in this Explanatory Memorandum, the Trust may also, on an ancillary basis, invest less than 30 per cent. of its Net Asset Value in futures contracts, options, depository receipts, warrants, convertible bonds and units in any unit trust or shares in any mutual fund corporation or any other collective investment scheme (including those offered by the Manager, its investment delegates (if any) or any of their Connected Persons). For the purposes of hedging market and currency risks, the Trust may invest in index and currency swaps and currency forwards. All investments of the Trust are subject to the investment restrictions under the Trust Deed. Please refer to section 2.7 of this Explanatory Memorandum for details of the investment restrictions under the Trust Deed.

The Trust does not invest in any asset backed securities (including asset backed commercial papers) or mortgage backed securities for hedging or non-hedging purposes. Nor does the Trust intend to engage in sale and repurchase transactions and reverse repurchase transactions. However, the Trust may enter into securities lending arrangements provided that the value of the securities to be loaned, together with the value of all other securities which are the subject of a loan by the Trust does not exceed 10 per cent. of its latest available Net Asset Value.

The Manager believes that the investment policy will be effective but there is no guarantee that the Trust’s investment objective will be achieved. Investors should understand that all investment carries risk. The value of Units and the income from them, if any, may fall as well as rise and investors might not get back the amount originally invested. Investors are also reminded that in certain circumstances described in section 3.8 of this Explanatory Memorandum, dealing in the Units may be temporarily suspended.

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## *Use of Derivatives / Investment in Derivatives*

The Trust's net derivative exposure may be up to 50 per cent. of its Net Asset Value, provided that for so long as the Trust is registered for public distribution in Taiwan, the Trust shall, unless otherwise approved by the Taiwan Financial Supervisory Commission, comply with local Taiwanese regulation in respect of net derivative exposure, which currently requires the total value of the Trust's non-offset position in derivatives held for:

- (1) any purposes other than hedging, and in any derivatives held for hedging purposes in excess of the position limit stated in (2) below, not to exceed 40 per cent. of its Net Asset Value (or such other percentage as the Taiwan regulator may stipulate from time to time); and
- (2) hedging purposes, not to exceed the total market value of the relevant securities held by the Trust.

\* The SFC's authorisation is not a recommendation or endorsement of a collective investment scheme nor does it guarantee the commercial merits of such collective investment scheme or its performance. It does not mean the collective investment scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or classes of investors.

## **2.3 Stock Connects**

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing links programme developed by Hong Kong Exchanges and Clearing Limited (“**HKEX**”), Shanghai Stock Exchange (“**SSE**”) and China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) and the Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links programme developed by HKEX, the Shenzhen Stock Exchange (“**SZSE**”) and ChinaClear. The aim of the Stock Connects is to achieve mutual stock market access between the Mainland China and Hong Kong.

The Shanghai-Hong Kong Stock Connect comprises a Northbound Shanghai Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shanghai Trading Link, Hong Kong and overseas investors (including the Trust), through their Hong Kong brokers and a securities trading service company as established by The Stock Exchange of Hong Kong Limited (“**SEHK**”), may be able to trade eligible China A Shares listed on SSE by routing orders to SSE.

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The Shenzhen-Hong Kong Stock Connect comprises a Northbound Shenzhen Trading Link and a Southbound Hong Kong Trading Link. Under the Northbound Shenzhen Trading Link, Hong Kong and overseas investors (including the Trust), through their Hong Kong brokers and a securities trading service company established by SEHK, may be able to trade eligible China A Shares listed on the SZSE by routing orders to SZSE.

## *Eligible Securities*

### *(i) Shanghai-Hong Kong Stock Connect*

Under the Shanghai-Hong Kong Stock Connect, Hong Kong and overseas investors (including the Trust) are able to trade certain stocks listed on the SSE market (i.e. “**SSE Securities**”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed China A Shares that are not included as constituent stocks of the relevant indices but which have corresponding H Shares listed on SEHK, except the following:

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are under risk alert.

It is expected that the list of eligible securities will be subject to review.

### *(ii) Shenzhen-Hong Kong Stock Connect*

Under the Shenzhen-Hong Kong Stock Connect, Hong Kong and overseas investors (including the Trust) are able to trade certain eligible shares listed on the SZSE market (i.e. “**SZSE Securities**”). These include all the constituent stocks of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of not less than RMB 6 billion, and all the SZSE-listed China A Shares which have corresponding H shares listed on SEHK, except the following:

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are under risk alert or under delisting arrangement.

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At the initial stage of the Shenzhen-Hong Kong Stock Connect, investors eligible to trade shares that are listed on the ChiNext Board under Northbound trading will be limited to institutional professional investors (which the Trust will qualify as such) as defined in the relevant Hong Kong rules and regulations.

It is expected that the list of eligible securities will be subject to review.

## *Trading Days*

Investors (including the Trust) will only be allowed to trade on the SSE market and the SZSE market on days where both Mainland China and Hong Kong stock markets are open for trading and banking services are available in both markets on the corresponding settlement days.

## *Trading Quota*

Trading under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect will be subject to a daily quota (“**Daily Quota**”). Northbound Shanghai Trading Link under the Shanghai-Hong Kong Stock Connect, Northbound Shenzhen Trading Link under the Shenzhen-Hong Kong Stock Connect, Southbound Hong Kong Trading Link under the Shanghai-Hong Kong Stock Connect and Southbound Hong Kong Trading Link under the Shenzhen-Hong Kong Stock Connect will be respectively subject to a separate set of Daily Quota.

The Daily Quota limits the maximum net buy value of cross-boundary trades under each of the Stock Connects each day.

SEHK will monitor the quota and publish the remaining balance of the Northbound Daily Quota at scheduled times on the HKEX’s website.

## *Settlement and Custody*

The Hong Kong Securities Clearing Company Limited (“**HKSCC**”), a wholly-owned subsidiary of HKEX, will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

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The China A Shares traded through Stock Connects are issued in scripless form, so investors will not hold any physical China A Shares. Hong Kong and overseas investors who have acquired SSE Securities or SZSE Securities through Northbound trading should maintain the SSE Securities or SZSE Securities with their brokers' or custodians' stock accounts with CCASS (the Central Clearing and Settlement System operated by HKSCC for the clearing securities listed or traded on SEHK).

## *Corporate Actions and Shareholders' Meetings*

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities and SZSE Securities held in its omnibus stock account in ChinaClear, ChinaClear as the share registrar for SSE and SZSE listed companies will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities and SZSE Securities.

HKSCC will monitor the corporate actions affecting SSE Securities and SZSE Securities and keep the relevant brokers or custodians participating in CCASS ("CCASS participants") informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

SSE-/SZSE-listed companies usually announce information regarding their annual general meetings/extraordinary general meetings about two to three weeks before the meeting date. A poll is called on all resolutions for all votes. HKSCC will advise CCASS participants of all general meeting details such as meeting date, time, venue and the number of resolutions.

## *Foreign Shareholding Restrictions*

The China Securities Regulatory Commission (the "CSRC") stipulates that, when holding China A Shares through the Stock Connects, Hong Kong and overseas investors are subject to the following shareholding restrictions:

- shares held by a single foreign investor (such as the Trust) investing in a listed company must not exceed 10 per cent. of the total issued shares of such listed company; and
- total shares held by all foreign investors (i.e. Hong Kong and overseas investors) who make investment in a listed company must not exceed 30 per cent. of the total issued shares of such listed company.

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When the aggregate foreign shareholding of an individual China A Share reaches 26 per cent., SSE or SZSE, as the case may be, will publish a notice on its website (<http://www.sse.com.cn/disclosure/diclosure/qfii> for SSE and <http://www.szse.cn/main/disclosure/news/qfii/> for SZSE). If the aggregate foreign shareholding exceeds the 30 per cent. threshold, the foreign investors concerned will be requested to sell the shares on a last-in-first-out basis within five trading days.

## ***Currency***

Hong Kong and overseas investors will trade and settle SSE Securities and SZSE Securities in RMB only. Hence, the Trust will need to use RMB to trade and settle SSE Securities and SZSE Securities.

## ***Trading Fees***

Under the Stock Connects, Hong Kong and overseas investors will be subject to the fees and levies imposed by SSE, SZSE, ChinaClear, HKSCC or the relevant Mainland Chinese authority when they trade and settle SSE Securities and SZSE Securities. Further information about the trading fees and levies is available online at the website: [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)\*

## ***Investor Compensation***

The Trust's investments through Northbound trading under the Stock Connects will not be covered by Hong Kong's Investor Compensation Fund.

Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong.

Since default matters in Northbound trading via the Stock Connects do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund.

On the other hand, since the Trust is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, therefore it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China.

Further information about the Stock Connects is available online at the website: [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)\*

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\* *This website has not been reviewed or authorised by the SFC.*

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## 2.4 Risk Management Policy

To manage the risks arising from the use of derivative instruments, the Manager intends to monitor participation and positions in such derivative instruments closely and will ensure that a suitable risk management process is employed which is commensurate with the Trust's risk profile.

Investments in derivative instruments would normally be monitored and controlled by the Manager with regular marked-to-market valuations, careful research prior to investment and compliance monitoring. A risk management team of the Manager will undertake risk management control functions.

### Liquidity Risk Management

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Trust and to ensure that the liquidity profile of the investments of the Trust will facilitate compliance with the Trust's obligation to meet redemption requests. Such policy, combined with the liquidity management tools of the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The Manager's liquidity policy takes into account the investment strategy, the liquidity profile, the redemption policy, the dealing frequency, the ability to enforce redemption limitations and the fair valuation policies of the Trust. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by the Trust on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "**3. SUBSCRIPTION AND REDEMPTION OF UNITS**", and will facilitate compliance with the Trust's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Trust under normal and exceptional market conditions.

The following tool(s) may be employed by the Manager to manage liquidity risks:

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- the Manager may limit the total number of Units which Unitholders are entitled to redeem in any Dealing Period to 10 per cent. of the total Net Asset Value of the Trust on the Valuation Day for that Dealing Period (subject to the conditions under the heading entitled “**3.4 Redemption of Units**” in the section headed “**3. SUBSCRIPTION AND REDEMPTION OF UNITS**”).

## 2.5 Risk Factors

This “RISK FACTORS” section sets out the risks associated with investment in the Trust. Investors should also pay attention to the applicable fees, charges and expenses. Investors should consult their own financial, tax, accounting, legal and other appropriate advisors before investing into the Trust.

### *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 Trust’s investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors. 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.

To achieve the investment objective, the Trust may invest in high dividend stocks. There is no guarantee that dividends will be declared by such companies. Also investors should not expect the dividend policy of such companies is tantamount to the dividend policy of the Trust.

### *Risk associated with high volatility of the equity market in the Asia region*

High market volatility and potential settlement difficulties in the markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Trust.

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## ***Risk associated with regulatory/exchanges requirements/policies of the equity market in the Asian region***

Securities exchanges in the Asian region typically have the right to suspend or limit trading in any security traded on the relevant exchange. The government or the regulators may also implement policies that may affect the financial markets. All these may have a negative impact on the Trust.

## ***Investment Risk***

There is no guarantee that in any time period, particularly in the short term, the Trust's portfolio will achieve any capital growth or even to maintain its current value. Investors should be aware that the value of Units may fall as well as rise due to any of the key risk factors disclosed.

Whilst it is the intention of the Manager to implement strategies which are designed to minimise potential losses, there can be no assurance that these strategies will be successful. It is possible that an investor may lose a substantial proportion or all of its investment in the Trust. There is no guarantee of the repayment of principal. As a result, each investor should carefully consider whether it can afford to bear the risks of investing in the Trust.

The Trust may invest in companies which are less well-established or in their early stages of development. These companies may often experience significant price volatility and potential lack of liquidity due to low trading volume of their securities.

In addition, the Trust may invest in the securities of small and medium sized companies. This can involve greater risk than is customarily associated with investments in larger and more established companies. In particular, smaller companies often have limited product lines, markets and/or financial resources and management may be dependent on a few key individuals. As a result, price movements in those companies may be more volatile. Transaction costs on dealing with securities of smaller capitalisation companies can be higher than those of larger capitalisation companies and there may be less liquidity which may constrain the Manager's ability to realise some or all of the Trust's portfolio.

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## *Effect of redemptions*

If significant redemptions of Units are requested, it may not be possible to liquidate the Trust's investments at the time such redemptions are requested or the Trust may be able to do so only at prices which the Trust believes does not reflect the true value of such investments, resulting in an adverse effect on the return to the investors. Where significant redemptions of Units are requested, the Trust may limit the number of Units that are redeemed on any Valuation Day, suspend the right of Unitholders to require redemption, or may extend the period for the payment of redemption moneys. Please see section 3.8 of this Explanatory Memorandum for further details.

In addition, the Trust may also in certain circumstances suspend the determination the Net Asset Value of the Trust for the whole or any part of any period. Please see section 3.8 of this Explanatory Memorandum for further details.

## *Dividend Risk and Risk Relating to Dividends Paid Out of Capital*

There is no guarantee that the underlying securities in the Trust will pay out dividends. Therefore, there is no guarantee that the Trust's investment strategies will succeed. There is also neither guarantee of dividend or distribution payments during the period an investor holds Units in the Trust nor will there be a target level of dividend payout. High distribution yield does not imply a positive or high return.

To the extent that the net distributable income generated by the Trust is insufficient to pay a distribution which is declared, the Manager may at its discretion determine such dividends may be paid from capital of the Trust. This would require the Manager to sell assets of the Trust to make such distributions as opposed to paying out net distributable income received by the Trust.

The distribution amount and Net Asset Value of the Currency Hedged Classes (as defined below) may be adversely affected by differences in the interest rates of the reference currency of the Currency Hedged Classes and the Trust's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged Classes.

**Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of an investor's original investment or from any capital gains attributable to the original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit in the relevant Class of the Trust.**

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The Manager may amend this policy subject to the SFC's prior approval and by giving not less than one month's prior notice to investors.

## ***Possible Business Failure***

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 Trust's investments may have an adverse effect on the Trust's performance and ability to achieve its objectives. The Trust intends to diversify its investments to minimise such adverse impact but there is no guarantee that such diversification strategy can mitigate any such adverse impact. Investors may lose money by investing in the Trust.

## ***No Right to Control the Trust's Operation***

Investors will have no right to control the daily operations, including investment and redemption decisions, of the Trust.

## ***Active Investment Management***

The Trust will rely upon the Manager in formulating the investment strategies and its performance is largely dependent on the continuation of an agreement with the Manager and the services and skills of their respective officers and employees. The Trust's investments will not track a particular share index or other predetermined benchmarks. Instead, the Trust's assets will be actively managed by the Manager, based on the expertise of individual fund managers, who will have discretion (subject to the Trust's investment restrictions) to invest the Trust's assets in investments that it considers will enable the Trust to achieve its investment objective. There is no guarantee that the Trust's investment objective will be achieved based on the investments selected. 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 the insolvency of the Manager, the Trust 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 Trust's performance and investors may lose money in those circumstances.

## ***Market Risk***

The investments of the Trust 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).

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## ***Emerging Markets Risk***

Investments may be made by the Trust in the emerging markets, which may be subject to certain increased risks and special considerations not typically associated with investment in more developed economies or markets. Some of the significant additional risks in investing in emerging markets include:

- delays in settling securities transactions and registering transfers of securities
- risk of loss arising out of systems of share registration and custody
- higher risk of political, economic and social uncertainty
- volatility of emerging market currencies against developed market currencies and greater foreign exchange controls
- higher volatility and lesser liquidity compared to developed markets
- shortage of qualified judicial and legal professionals to interpret or advise upon recently enacted and future laws
- greater settlement risk
- greater legal and tax risk
- difficulties in enforcement actions

These factors make investments in emerging markets generally more volatile than investments in developed markets, which may result in a declining Net Asset Value and may impair the Trust's liquidity.

## ***Geographical Concentration Risk***

The Trust's investments are concentrated in Asian markets. The value of the Trust may likely be more volatile than a broad-based fund having a more diverse portfolio of investments, such as a global equity fund, as it is more susceptible to fluctuations in value resulting from adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Asian market in which it invests.

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## ***Foreign Exchange Risk***

The Trust may issue Classes denominated in a currency other than its base currency. In addition, the Trust may invest in assets that are denominated in a currency other than its base currency or the relevant Class Currency (as defined below). The Net Asset Value of the Trust may therefore be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls. Accordingly, the value of a Unitholder's investment may be affected favourably or unfavourably by fluctuations in the rates of exchange of the different currencies.

The Trust may, in part, seek to offset the risks associated with such exposure through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

Any changes in exchange control regulations may cause difficulties in the repatriation of funds. Dealings in the Trust may be suspended if the Trust is unable to repatriate funds for the purpose of making payments on the redemption of Units.

## ***Volatility and Liquidity Risk***

The debt securities in markets that the Trust invests in may be subject to higher volatility and lower liquidity compared to more developed markets. It is possible that there may be no liquidity or no bid or offer prices or no reliable bid or offer prices quoted for certain securities that the Trust may invest in, in particular debt securities and securities that are not listed on a recognised stock exchange. It may be difficult to determine the appropriate valuation of such investments and the Trust's ability to sell or liquidate investments at favourable times or for favourable prices may be restricted. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Trust may incur significant trading costs. As a result, the Trust's value will be adversely affected.

Liquidity risk also exists if sizeable redemption requests are received as the Trust may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Trust may suffer losses in trading such investments.

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## ***Custody Risk***

Custodians or sub-custodians may be appointed in local markets for purpose of safekeeping assets in those markets. Where the Trust invests in markets where custodial and/or settlement systems are not fully developed, the assets of the Trust may be exposed to custodial risk. In case of liquidation, bankruptcy or insolvency of a custodian or sub-custodian, the Trust may take a longer time to recover its assets. In extreme circumstances such as the retroactive application of legislation and fraud or improper registration of title, the Trust may even be unable to recover all of its assets. The costs borne by the Trust in investing and holding investments in such markets will be generally higher than in organised securities markets.

## ***Risks relating to Securities Lending Transactions***

Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner and the value of the collateral may fall below the value of the securities lent out.

## ***Risks associated with Collateral Management and Re-investment of Cash Collateral***

Where the Trust enters into a securities financing transaction or an over-the-counter (“OTC”) derivative transaction, collateral may be received from or provided to the relevant counterparty. Notwithstanding that the Trust may only accept non-cash collateral which is highly liquid, the Trust is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The Trust is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Trust may re-invest its cash collateral. Investors should note that there are risks associated with the re-investment of cash collateral. If the Trust reinvests cash collateral, such re-investment is subject to investment risks including the potential loss of principal.

Where collateral is provided by the Trust to the relevant counterparty, in the event of the insolvency of the counterparty, the Trust may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return if the collateral becomes available to the creditors of the relevant counterparty.

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Finance charges received by the Trust under a securities lending transaction may be reinvested in order to generate additional income. Similarly cash collateral received by the Trust may also be reinvested in order to generate additional income. In both circumstances, the Trust will be exposed to market risk in respect of any such investments and may incur a loss in reinvesting the financing charges and cash collateral it receives. Such a loss may arise due to a decline in the value of the investment made. A decline in the value of investment of the cash collateral would reduce the amount of collateral available to be returned by the Trust to the securities lending counterparty at the conclusion of the securities lending contract. The Trust would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Trust.

## ***Repatriation Limitations***

Some jurisdictions may impose restrictions on foreign exchange, especially in relation to the repatriation of foreign funds. Such markets may prohibit the repatriation of foreign funds for a fixed time horizon and limit the percentage of invested funds to be repatriated at each time. As a result, the Trust can incur loss from any prohibition or delay in its ability to repatriate funds from those jurisdictions and therefore cause a decline in the Net Asset Value. Investors may lose money or may be unable to redeem the full amount of their Units or may experience some delay, please see section 3.8 of this Explanatory Memorandum for further details.

## ***Counterparty Risk***

Financial institutions, such as brokerage firms, broker-dealers and banks, may enter into transactions with the Manager on account of the Trust in relation to the Trust's investments. These financial institutions, being a counterparty to the transactions, may also be issuers of securities or other financial instruments in which the Trust invests. This exposes the Trust to the risk that 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 Trust to suffer a loss.

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Deposits of securities or cash with a custodian, bank or financial institution (“**custodian or depository**”) will also carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default by them. In these circumstances, the Trust 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 Trust’s assets. In most cases, the Trust’s assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository. However, for instance, in securities lending arrangements, the Trust may not have a right to have specific assets returned to it, but rather, the Trust may only have an unsecured claim against the custodian or counterparty, in which case it may lose all or the greater part of the value of the relevant assets.

### *Credit Risk*

The Trust may invest in securities which (or the issuers of which) are rated below investment grade. The Trust may be subject to additional risks due to the speculative nature of investing in securities which (or the issuers of which) are rated below investment grade. Accordingly, an investment in these securities may be accompanied by a higher degree of credit risk (as defined below) and a greater possibility of default than is present with investment in higher rated, lower yielding securities. Below investment grade securities such as, for example, high yield debt securities, may be considered speculative and can include securities that are unrated and/or in default.

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due, which may lead to a default and, ultimately, a fall in the value of the Trust.

Even in the absence of the issuer’s default, if the mark-to-market value is lower than the cost of the investment, the Trust may suffer immediate diminution in the Net Asset Value. There is no guarantee that investors will receive the principal amount invested when they redeem their investment in the Trust.

In times of market turmoil if redemption pressure is huge, the Trust may be forced to realise a substantial portion of its investments at a value which may result in significant losses to the Trust and investors may lose money in such circumstances.

Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields.

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Changes in the financial conditions of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer, are all factors that may have an adverse impact on an issuer's credit quality and security values.

## ***Interest Rate Risk***

The Trust may invest in fixed income securities which are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Certain fixed income securities give an issuer the right to call its securities, before their maturity date, in periods of declining interest rates. The possibility of such "pre-payment risk" may force the Trust to reinvest the proceeds of such investments in securities offering lower yields, thereby reducing the Trust's interest income.

## ***Credit Rating Downgrading Risk***

Investment grade securities may be subject to the risk of being downgraded to below investment grade securities, and its issuer's credit rating may also subsequently be downgraded. Credit ratings assigned by credit agencies do not guarantee the creditworthiness of the issuers. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, the Trust's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the Trust. If the Trust continues to hold such securities, it will be subject to additional risk of loss. In the event of investment grade securities being downgraded to below investment grade securities, the Trust will also be subject to the below investment grade securities risk outlined in the following paragraph.

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## ***Unrated or Below Investment Grade and High Yielding Debt Securities Risk***

The Trust may invest in high yielding debt securities which (or the issuers of which) may be unrated or rated below investment grade. Investments in securities which (or the issuers of which) are unrated or below investment grade are considered to have a higher credit risk and greater possibility of default than securities which (or the issuers of which) are investment grade with respect to payment of interest and the return of principal. Unrated or lower rated debt securities generally offer a higher current yield than higher grade issues. However, unrated or lower rated debt securities involve higher risks and are more susceptible and sensitive to adverse changes in general economic conditions, changes in interest rates and in the industries in which the issuers are engaged, as well as to changes in the financial condition of the issuers. Valuation of these securities is more difficult and thus the Trust's prices may be more volatile. Additionally, the market for unrated or lower rated debt securities generally is less active than that for higher rated securities and the Trust's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by such factors as adverse publicity and investor perceptions. As a result, it may be more difficult for the Trust to sell such debt securities or the Trust may be able to sell such debt securities only at prices lower than if such debt securities were widely traded. The Trust will suffer losses if such debt securities have to be sold at prices which are substantially lower than the amount invested by the Trust.

The value of lower rated or unrated debt securities is also affected by investors' perceptions. When economic conditions appear to be deteriorating, lower rated or unrated debt securities may decline in market value more than investment grade debt securities due to investors' heightened concerns and perceptions over credit quality and increase in the default risk of such lower or unrated debt securities. As a result, the value of the Trust's investments may be adversely affected and investors may suffer substantial losses of their investments.

## ***Sovereign Debt Risk***

The Trust's investment in securities issued or guaranteed by governments may be exposed to political, social and economic risks. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may require the Trust to participate in restructuring such debts. The Trust may suffer significant losses when there is a default of sovereign debt issuers.

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## ***Borrowing Risks***

The Trust may borrow subject to the limit set out in the Trust Deed for various reasons, such as facilitating redemptions or to acquire investments for the account of the Trust. Borrowing involves an increased degree of financial risk and may increase the exposure of the Trust 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 Trust will be able to borrow on favourable terms, or that the Trust's indebtedness will be accessible or be able to be refinanced by the Trust at any time.

## ***Political, Economic and Social Risks***

The value of the assets of the Trust may be affected by uncertainties or changes such as domestic and international political developments, changes in social conditions, changes in government policies, taxation, restrictions on foreign investments and currency repatriation, the level of interest rates, currency fluctuations, fluctuations in both debt and equity capital markets, sovereign defaults, inflation and money supply deflation, and other developments in the legal, regulatory and political climate in the jurisdictions in which investments may be made, which may or may not occur without prior notice. Any such changes or developments may affect the value and marketability of the Trust's investments.

## ***Financial Derivative Instruments***

The Trust may invest in the investment targets of the Trust through financial derivative instruments ("FDIs"). The Trust may also use FDIs for hedging purposes. FDIs may not be listed and are subject to the terms and conditions imposed by their issuer. There is no active market in FDIs and therefore investment in FDIs can be illiquid. In order to meet redemption requests, the Trust relies upon the issuer of the FDIs to quote a price to unwind any part of the FDIs that will reflect the market liquidity conditions and the size of the transaction. There is a risk that the issuer of the FDIs will not settle a transaction due to a credit or liquidity problem and the Trust may suffer a total loss of the Trust's interest in the FDIs.

An investment in the FDIs does not entitle the FDIs holder to the beneficial interest in the shares nor to make any claim against the company issuing the shares. There can be no assurance that the price of the FDIs will equal the underlying value of the company or securities market that it may seek to replicate.

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Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. Compared to conventional securities, such as shares and debt securities, FDIs with leveraging effect (such as futures and warrants) can be more sensitive to changes in interest rates or to sudden fluctuations in market prices. As a result, a relatively small price movement in the value of the underlying asset of such FDIs may result in immediate and substantial loss (or gain) to the Trust. The leverage element/ component of a FDIs and adverse changes in the value or level of the underlying asset, rate or index can result in a loss significantly greater than the amount invested in the FDIs itself. Exposure to FDIs may lead to a high risk of significant loss by the Trust, and the Trust's losses may be greater than if it invests only in conventional securities such as shares and debt securities. The exposure of the Trust to FDIs is subject to the applicable investment restrictions set out in this Explanatory Memorandum.

## ***Hedging Risk***

The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market and currency risks. The Trust may use financial derivatives such as index and currency swaps and currency forwards for hedging purposes. There is no guarantee that hedging techniques will achieve their desired result.

While the Trust may enter into such transactions to seek to reduce currency, exchange rate, interest rate and other market risks, unanticipated changes in currency, interest rates and the relevant markets may result in a poorer overall performance of the Trust. For a variety of reasons, the Trust may not obtain a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the intended hedge or expose the Trust to risk of loss.

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## *Risks relating to Currency Hedging and the Currency Hedged Classes*

The Manager may (but is not obliged to) enter into certain currency related transactions in order to hedge the currency exposure of the assets of the Trust attributable to a particular class into the class currency of the relevant class. Any financial instruments used to implement such strategies with respect to one or more classes shall be assets/liabilities of the Trust as a whole but will be attributable to the relevant class(es) and the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant class. Where a class of Units is to be hedged (“**Currency Hedged Class**”) this will be disclosed in this Explanatory Memorandum. Any currency exposure of a class may not be combined with, or offset against, that of any other class of the Trust. The currency exposure of the assets attributable to a class may not be allocated to other classes.

Where the Manager seeks to hedge against currency fluctuations, while not intended, this could result in over-hedged or under-hedged positions due to external factors outside the control of the Manager. Investors in the Currency Hedged Classes may have exposure to currencies other than the currency of that Currency Hedged Class. Investors should also be aware that the hedging strategy may substantially limit the benefits of any potential increase in value of a Currency Hedged Class expressed in the class currency, if the Currency Hedged Class’ denominating currency falls against the base currency of the Trust.

The Manager may also, at its absolute discretion, seek to fully or partially hedge currency exposures arising from some or all of the Trust’s underlying assets to the base currency of the Trust. Investors whose base currency is different (or not in a currency linked to the Trust’s base currency or the currency of that Currency Hedged Class) may be exposed to additional currency risk.

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The precise hedging strategy applied to a particular Currency Hedged Class may vary. In addition, there is no guarantee that the desired hedging instruments will be available or hedging strategy will achieve its desired result. In such circumstances, investors of the Currency Hedged Class may still be subject to the currency exchange risk on an unhedged basis (which means that, for example, if the hedging strategy in respect of the hedged RMB Classes of Units is ineffective, depending on the exchange rate movements of RMB relative to the base currency of the Trust, and/or other currency(ies) of the non-RMB denominated underlying investment of the Trust, (i) investors may still suffer losses even if there are gains or no losses in the value of the non-RMB denominated underlying investments; or (ii) investors may suffer additional losses if the non-RMB denominated underlying investments of the Trust fall in value).

If the counterparties of the instruments used for hedging purposes default, investors of the Currency Hedged Classes may be exposed to the currency exchange risk on an unhedged basis and may therefore suffer further losses.

The Trust currently offers different Currency Hedged Classes as disclosed in this Explanatory Memorandum which are primarily targeted for investors whose base currencies of investment are the currencies of the Currency Hedged Classes.

Each Currency Hedged Class may hedge the Trust's denominated currency back to its currency of denomination, with an aim to provide a return on investment which correlates with the return of the class which is denominated in the base currency of the Trust by reducing the effect of exchange rate fluctuations between the base currency of the Trust and the Currency Hedged Classes whilst taking into account practical considerations such as transaction costs. However, the return of the Currency Hedged Classes will never correlate perfectly to the class which is denominated in the base currency of the Trust due to various factors, including but not limited to short-term interest rate differentials, unrealized gains/losses on currency forward positions not being invested until the gains/losses are realised and transaction costs attributable to the hedging activity. Investors should also note that the distribution amount and/or rate of the Currency Hedged Classes may be more than or less than such amount and/or rate of the class which is denominated in the base currency of the Trust due to various factors, including but not limited to short-term interest rate differentials. Where the Currency Hedged Class is subject to a performance fee, it should be noted that any divergence in the performance of different classes (for the reasons stated above), or different launch dates of different classes, could result in any such performance fees becoming chargeable at different points in time, as different classes reach their high watermark at different points in time. Accordingly the performance fee may adversely impact the correlation between different classes.

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Consequently, a Currency Hedged Class is not recommended for investors whose base currency of investment is not in the same currency of such Currency Hedge Class. Investors who choose to convert other currencies into such base currency to invest in such Currency Hedge Class should understand that they may be exposed to higher currency risks and may suffer a higher loss as a result of exchange rate fluctuations than an investor whose base currency of investment is in the same currency of the Currency Hedged Class.

To the extent that hedging is successful for a particular Currency Hedged Class, the performance of the Currency Hedged Class is likely to move in line with the performance of the underlying assets with the result that investors in that Currency Hedged Class will not gain if the class currency falls against the base currency of the Trust.

It is intended that the currency hedging strategy which will be employed will be based on the most up-to-date information in relation to the Net Asset Value of the Trust, and will also take into account future transactions relating to Unitholder activity that will be processed through each class of Units in the Trust as at the relevant valuation point. The currency hedging strategy will be monitored and adjusted in line with the valuation cycle at which investors are able to subscribe to and redeem from the Trust.

Futures, forwards, options and contracts for difference may be used to hedge against downward movements in the value of the Trust's portfolio, either by reference to specific securities or markets to which the Trust may be exposed.

Forward foreign exchange contracts are also used more specifically to hedge the value of certain classes of Units in the Trust against changes in the exchange rate between the currency of denomination of the class of Units and the base currency of the Trust.

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## *Risks of Investing in Other Collective Investment Schemes*

The Trust may invest in other collective investment schemes. The underlying investment schemes in which the Trust may invest may not be regulated by the SFC. The Trust does not have control of the investments of the underlying schemes. Investment decisions of the underlying schemes are made at the level of such schemes. There can be no assurance that (i) the selection of the managers of the underlying schemes will result in an effective diversification of investment styles and that positions taken by the underlying schemes will always be consistent; and (ii) the investment objective and strategy of the underlying schemes will be successfully achieved. There is also no guarantee that the underlying schemes will always have sufficient liquidity to meet the Trust's redemption requests as and when made. As a result, the foregoing may have a negative impact on the Net Asset Value of the Trust.

There may be additional costs involved when investing into the underlying schemes. The Trust bears the fees payable to the Manager and its other service providers, as well as, indirectly, a proportionate share of the fees paid by the underlying schemes to their managers and the service providers of the underlying schemes (such as subscription fee, redemption fee, management fee and other costs and charges payable to the managers and service providers of the underlying schemes). For the avoidance of doubt, where the Trust invests into an underlying scheme managed by the Manager, the investment delegates (if any) or any of their respective Connected Persons, all initial charges and redemption charges on such underlying scheme will be waived. Further, the Manager or any person acting on behalf of the Trust or the Manager will not obtain a rebate on any fees or charges levied by the underlying scheme or its management company or any quantifiable monetary benefits in connection with investments in any underlying scheme.

The Trust may invest in shares or units of a collective investment scheme managed by the Manager, the investment delegates (if any), or any of their respective Connected Persons. It is possible that any of the Manager, the investment delegates (if any) or any of their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Trust. In the event of such conflicts, the Manager will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Trust and any of them are on an arm's length basis. Please refer to the section headed "Conflicts of Interest" of this Explanatory Memorandum for further details.

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## *Risks relating to Investment in ETFs*

### *Passive investments*

The ETFs that the Trust invests in may not be “actively managed” and the managers of such ETFs do not have the discretion to adapt to market changes due to the inherent investment nature of such ETFs. Therefore, when there is a decline in the underlying index of the ETFs, the ETFs will also decrease in value, which may adversely affect the value of the Trust.

### *Tracking error risk*

Due to fees and expenses of an ETF that the Trust invests in, liquidity of the market and different investment strategies adopted by the manager of the ETF, the ETF’s return may deviate from that of the underlying index. Although the manager of the ETF will monitor and seek to manage such risk in minimising tracking error, there can be no assurance of exact or identical replication at any time of the performance of the underlying index.

### *Trading risk*

Generally, the Trust can only buy or sell units/shares of an ETF on any securities exchange. The trading price of units/shares of an ETF on a securities exchange is driven by market factors such as the demand and supply of such units/shares. Therefore, such units/shares may trade at a substantial premium or discount to the relevant ETF’s net asset value.

As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell units/shares of an ETF on a securities exchange, the Trust may pay more than the net asset value per unit/share when buying units/shares of an ETF on a securities exchange, and may receive less than the net asset value per unit/share when selling units/shares of an ETF on a securities exchange.

### *Trading differences risk*

As the relevant stock exchanges may be open when units/shares in an ETF that the Trust invests in are not priced, the value of the securities in the relevant ETF’s portfolio may change on days when investors like the Trust will not be able to purchase or sell the ETF’s units/shares.

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Differences in trading hours between the relevant stock exchanges and the stock exchange on which an ETF is listed may also increase the level of premium or discount of the unit/share price to the net asset value of an ETF, which in turn, may affect the value of the Trust.

## *Termination risk*

The ETFs that the Trust invests in may be terminated early under certain circumstances, for example, where the underlying index is no longer available for benchmarking or if the size of the relevant ETF falls below a pre-determined threshold as set out in the constitutive documents and offering documents. Investors like the Trust may not be able to recover its investments and suffer a loss when the relevant ETF is terminated.

## *Reliance on market maker risk*

Although the manager of an ETF that the Trust invests in will ensure that there will be market making arrangement in place, there is no guarantee that any market making activity will be effective. Also, liquidity in the market for the units/shares of the relevant ETF may be adversely affected if there is no or only one market maker for the relevant ETFs.

## ***Risks relating to REITs***

The prices of REITs are affected by changes in the value of the underlying properties owned by the REITs and may subject the Trust to risks similar to those from direct ownership of real property.

Real estate investments are relatively illiquid and may affect the ability of a REIT to vary its investment portfolio or liquidate part of its assets in response to changes in economic conditions, international securities markets, foreign exchange rates, interest rates, real estate markets or other conditions.

Returns from REITs are dependent on management skills in managing the underlying properties. REITs are subject to risk of defaults by borrowers or tenants. In the event of a default, a REIT may experience delays in enforcing its rights and may suffer losses as a result.

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## *Legal Infrastructure Risk*

The Asian region has diverse legal, banking and exchange control systems with which prospective investors may not be accustomed. Company laws in some targeted jurisdictions are in their early stage. In the development of these, certain new laws might have a negative impact on the value of an investment which cannot be foreseen at the time the investment is made. As the efficacy of such laws is as yet uncertain, there can be no assurance as to the extent to which rights of foreign Unitholders can be protected. In addition, there may also be a shortage of qualified judicial and legal professionals to interpret or advise upon recently enacted and future laws in some jurisdictions. The value of the Trust's portfolio can be affected negatively by changes in those legal, banking or exchange control systems. Investors may lose money in those circumstances.

## *Performance Fee*

The performance fee payable to the Manager may create an incentive for the Manager to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. Prospective investors should note that the management fee and performance fee payable to the Manager are based in part upon unrealised gains (as well as unrealised losses), and that such unrealised gains and losses may never be realised by the Trust.

There is no equalisation arrangement in respect of the calculation of the performance fees. As there is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis, a Unitholder may incur a performance fee notwithstanding the Unitholder may have suffered a loss in investment in the Units. On the other hand, a Unitholder may not be subject to any performance fee notwithstanding the Unitholder concerned may have realised a gain in investment in the Units.

In addition, performance fees may be paid on unrealised gains which may never be realised by the Trust.

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## *Accounting and Reporting Standards*

The accounting standards and regulatory requirements of financial reporting and information disclosure in some markets in which the Trust may invest may not follow international standards as there are differences between international standards and reporting practices in such markets. These differences may lie in areas such as different valuation methods of the properties or the assets, and the requirements for disclosure of information to investors. Therefore, the Trust may be forced to make investment decisions based on incomplete or incorrect data. If those data turn out to be incomplete or incorrect, the security in which the Trust has invested into could decline in value or become valueless. Investors may lose money in those circumstances.

## *Valuation and Accounting*

Valuation of the Trust's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the Net Asset Value calculation of the Trust.

In some instances where there may be no liquidity or no bid or offer prices or no reliable bid or offer prices quoted for certain securities that the Trust may invest in, in particular debt securities and securities that are not listed or quoted on a recognised market, it may be difficult to determine the appropriate valuation of such investments and the Manager may have a conflict of interest in striking such valuation since its management and performance fees will be affected by the value of assets under management. The Manager may in such instances request for a revaluation to be made by a professional person approved by the Trustee.

Further, under current market conditions, it may be the case that the bid-offer spread will be very wide for financial instruments held by the Trust, particularly in the case of debt securities that are not listed on a recognised stock exchange, although such spread may be expected to narrow over time. One consequence of this is that to the extent the Trust values its portfolio by reference to bid prices, it will incur an immediate diminution in net asset value on the purchase of such debt instruments.

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The Manager adopts the International Financial Reporting Standards (“**IFRS**”) in drawing up the annual reports of the Trust, and interim reports will apply the same accounting policies and method of computation as are applied in the annual reports of the Trust. However, the calculation of the Net Asset Value in the manner described below in section 3.9 of this Explanatory Memorandum (which the Manager intends to adopt for the purpose of the calculation of various fees as described in this Explanatory Memorandum) may not necessarily be in compliance with the IFRS. Accordingly, the Net Asset Value as described in this Explanatory Memorandum may not necessarily be the same as the net asset value to be reported in the annual reports as the Manager may make necessary adjustments in the annual reports to comply with IFRS.

## *Foreign Account Tax Compliance Act*

Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as “**FATCA**”) of the U.S. Internal Revenue Code of 1986, as amended (“**IRS Code**”) impose rules with respect to certain payments to non-United States persons, such as the Trust, including interest and dividends from securities of U.S. issuers. All such payments (referred to as “**withholdable payments**”) may be subject to withholding at a 30 per cent. rate, unless the recipient of the payment satisfies certain requirements intended to enable the U.S. Internal Revenue Service (“**IRS**”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. While such withholding would have applied also to payments of gross proceeds from the sale or other disposition on or after 1 January 2019 of property of a type which can produce U.S. source dividends and interest, recently proposed U.S. Treasury regulations eliminate such withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed U.S. Treasury regulations until final U.S. Treasury regulations are issued. To avoid such withholding on payments made to it, a foreign financial institution (an “**FFI**”), such as the Trust (and, generally, other investment funds organised outside the United States), generally will be required to enter into an agreement (an “**FFI Agreement**”) with the IRS, under which it will agree to identify its direct or indirect United States owners and report certain information concerning such United States owners to the IRS.

The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30 per cent. on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

On 13 November 2014, Hong Kong entered into an intergovernmental agreement with the United States (“**IGA**”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Trust) would be required to register with the IRS and comply with the terms of the FFI Agreement. Otherwise they will be subject to a 30 per cent. withholding tax on relevant U.S.-sourced payments they receive.

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Under the IGA, FFIs in Hong Kong (such as the Trust) complying with the FFI Agreement (i) will generally not be subject to the above described 30 per cent. withholding tax on payments they receive; and (ii) will not be required to withhold tax on withholdable payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account is reported to the IRS pursuant to the provisions of the IGA), but may be required to withhold tax on withholdable payments made to non-compliant FFIs. Withholding may be required with respect to withholdable payment to recalcitrant accounts if, pursuant to certain exchange of information provisions contained in the IGA, the IRS has not obtained information regarding such recalcitrant account holders within a time period specified in the IGA.

The Trust will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any withholding tax. In particular, the Trust has been registered with the IRS as a reporting Model 2 FFI with Global Intermediary Identification Number BE4VWJ.99999.SL.344. In the event that the Trust is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and the Trust does suffer U.S. withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Trust may be adversely affected and the Trust may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which the Trust invests may be required to satisfy their own FATCA compliance obligations, and failure by any underlying collective investment scheme to fully comply with its FATCA obligations may have an adverse impact on the Net Asset Value of the Trust.

To the extent that the Trust suffers withholding tax on its investments as a result of FATCA, the Trustee on behalf of the Trust may, after completing due process to ascertain and confirm that a Unitholder has failed to cooperate and provide the required information, bring legal action against such Unitholder for losses suffered by the Trust as a result of such withholding tax.

Each Unitholder and prospective investor should consult with his/her own tax advisor as to the potential impact of FATCA in his/her own tax situation.

## ***Risks Associated with Investment in Mainland China***

The imposition of additional governmental restrictions in the Mainland China may affect some or all of the investments held by the Trust in the Mainland China.

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Investors should also note that any change in the policies of the Mainland China may have an adverse impact on the securities market in the Mainland China as well as the underlying securities of the Trust, which may result in an adverse impact on the performance of the Trust.

The economy in the Mainland China has experienced rapid growth in recent years. However, such growth may or may not continue nor apply evenly across different sectors of the Mainland China economy. The PRC government has also implemented various measures from time to time to prevent overheating of the economy. All these may have an adverse impact upon the performance of the investments of the Trust which are related to the Mainland China.

## *Legal System of the Mainland China*

The legal system of the Mainland China is based on written laws and regulations. The PRC government is continuously making improvements on its commercial laws and regulations. However, many of these laws and regulations are still untested and the enforceability of such laws and regulations remains unclear. In particular, the Mainland China regulations which govern currency exchange in the Mainland China and the investments of the Trust as a foreign investor are relatively new and their application is uncertain. Such regulations also empower the CSRC and the State Administration of Foreign Exchange (“SAFE”) to exercise discretion in their respective interpretation of the regulations, which may result in uncertainties in their application.

## *RMB Depreciation*

The Trust may invest in RMB-denominated investments which are related to the Mainland China and investments whose value the Manager believes would be boosted by a RMB appreciation. Conversely, the value of the Trust may be adversely affected in the event of RMB depreciation. Investors may lose money in such circumstances.

## *Risks associated with RMB Classes of Units*

Starting from 2005, the exchange rate of the RMB is no longer pegged to the US dollar. The RMB 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 RMB 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 RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors.

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The possibility that the appreciation of RMB will be accelerated cannot be excluded. On the other hand, there is no assurance that the RMB will not be subject to devaluation. Any devaluation of the RMB could adversely affect the value of investors' investments in the RMB Classes of Units. If investors are non RMB-based (e.g. Hong Kong) investors and convert other currencies into RMB so as to invest in the RMB Classes of Units and subsequently convert the RMB redemption proceeds back into other currencies, they may incur currency conversion costs and may suffer a loss if RMB depreciates against such other currencies.

In addition, under the current regulations, the rate at which RMB may be exchanged outside Mainland China (in the case of Hong Kong, the "CNH" rate) may be different from the exchange rate within Mainland China (the "CNY" rate) and such divergence may increase due to supply and demand. When calculating the value of the RMB Classes of Units, namely Class A Acc RMB Unhedged, Class A Acc RMB Hedged, Class A2 MDis RMB Unhedged, and Class A2 MDis RMB Hedged, reference to the CNH rate rather than the CNY rate will be made and the value of the RMB Classes of Units thus calculated will be affected by fluctuations in the CNH rate. While CNH and CNY represent the same currency, they are traded in different and separate markets which operate independently. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY. Any divergence between CNH and CNY may adversely impact investors.

In respect of the hedged RMB Classes of Units, the Manager may attempt to hedge the base currency of the Trust and/or other currencies of non-RMB-denominated underlying investments of the Trust back to RMB. The costs of the hedging transactions will be reflected in the Net Asset Value of the hedged RMB Classes of Units and therefore, an investor of such hedged RMB Classes of Units will have to bear the associated hedging costs, which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB Classes of Units may be exposed to RMB currency exchange risk on an unhedged basis and may therefore suffer further losses.

Furthermore, there is no guarantee that the hedging strategy will be effective and you may still be subject to the RMB currency exchange risk which may apply to the non-hedged RMB Class. For instance, where RMB depreciates against currencies of the non-RMB denominated underlying investments of the Trust, (i) investors may still suffer losses even if there are gains or no losses in the value of the non-RMB-denominated underlying investments; or (ii) investors may suffer additional losses if the non-RMB-denominated underlying investments of the Trust fall in value.

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Whilst the hedging strategy may protect investors against a decline in the value of the Trust's base currency and/or other currencies of non-RMB-denominated underlying investments relative to RMB, investors will not benefit from any potential gain in the value of the hedged RMB Classes of Units if the Trust's base currency and/or other currencies of non-RMB-denominated underlying investments of the Trust rise against RMB. Please also refer to the above risk factor "Hedging Risk".

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. The Chinese government's policies on exchange control and repatriation restrictions are subject to change and the investors' investment in the RMB Classes of Units may be adversely affected.

The PRC government's imposition of restrictions on the repatriation of RMB out of Mainland China may limit the depth of the RMB market outside the Mainland China and make it impossible for the Trust to hold sufficient amounts of RMB outside the Mainland China to meet redemption requests in RMB. Due to the exchange controls and restrictions applicable to RMB, the Trust may not be able to get sufficient amounts of RMB in a timely manner to meet redemption requests of the RMB Classes of Units as a substantial portion of its underlying investments are non-RMB denominated.

Even if the Trust aims to pay redemption proceeds and/or dividends to investors of the RMB Classes of Units in RMB, investors may not receive RMB upon redemption of their investments or receive dividend payments in RMB under extreme market conditions when there is not sufficient RMB for currency conversion. Under such circumstances, the Manager may pay redemption proceeds and/or dividends in USD. There is also a risk that payment of investors' redemption proceeds and/or dividends in RMB may be delayed when there is not sufficient RMB for currency conversion for settlement of the redemption proceeds and dividends as a result of the exchange controls and restrictions applicable to RMB. Assuming no delay in submitting completed documentation by the redeeming Unitholder and the Manager not exercising any of the powers described below under the section headed "Suspension of the Determination of Net Asset Value", the maximum period for paying the redemption proceeds which should elapse between the receipt of a valid redemption request and the date of despatch of redemption moneys is 30 days.

## ***Risks relating to China A Shares Market***

Investing in China A Shares market may be subject to greater political, economic, legal and regulatory risks. For further details, please see the risk factors "Risks Associated with Investment in Mainland China" and "Legal System of the Mainland China" above.

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The China A Shares market may be volatile and unstable (for example, due to the risk of suspension of a particular stock or government intervention. For further details, please see risk factor “Liquidity Risk of Investing in China A Shares and China B Shares” below). Market volatility and instability in the China A Shares markets may result in prices of securities traded on such markets fluctuating significantly resulting in substantial changes in the Net Asset Value of the Trust.

## ***Liquidity Risk of Investing in China A Shares and China B Shares***

China A Shares may be subject to trading bands which restrict increases and decreases in the trading price. If the trading price of any China A Shares has increased or decreased to the extent beyond the trading band limit during the day, trading in the China A Shares on the relevant stock exchange may be suspended. The Trust if investing through the Stock Connects, CAAP Issuers and A Shares CIS will be prevented from trading China A Shares when they hit the “trading band limit”. If this happens on a particular trading day, the Trust, CAAP Issuers and A Shares CIS may be unable to trade China A Shares. When the Manager trades China B Shares for the account of the Trust, the Manager may also be unable to trade China B Shares due to the “trading band limit”. As a result, the liquidity of the CAAPs, A Shares CIS, China A Shares and China B Shares may be adversely affected which in turn may affect the value of the Trust’s investments.

## ***Risks associated with Stock Connects***

The Trust may invest through the Stock Connects. In addition to the risk factors headed “Risks Associated with Investment in Mainland China”, “Legal System of the Mainland China”, “Risk relating to China A Shares Market”, “Liquidity Risk of Investing in China A Shares and China B Shares”, “Mainland China Tax Risk” and “Renminbi Depreciation”, it is also subject to the following additional risks:

*Quota limitations* – The Stock Connects are subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the Trust’s ability to invest in China A Shares through the Stock Connects on a timely basis, and the Trust may not be able to effectively pursue its investment strategies.

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*Suspension risk* – Each of the SEHK, SSE and SZSE reserves the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading through the Stock Connects is effected, the Trust’s ability to access the Mainland China market will be adversely affected.

*Differences in trading days* – The Stock Connects only operate on days when both the Mainland China and Hong Kong stock markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the Mainland China stock markets but Hong Kong investors (such as the Trust) cannot carry out any China A Shares trading. Due to the differences in trading days, the Trust may be subject to a risk of price fluctuations in China A Shares on a day that the Mainland China stock markets are open for trading but the Hong Kong stock market is closed.

*Operational risk* – The Stock Connects provide a channel for investors from Hong Kong and overseas to access the Mainland China stock markets directly.

The Stock Connects are premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

Market participants generally have configured and adapted their operational and technical systems for the purpose of trading China A Shares through the Stock Connects. However, it should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the programme to operate, market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in the Stock Connects requires routing of orders across the border. SEHK has set up an order routing system (“**China Stock Connect System**”) to capture, consolidate and route the cross-boundary orders input by exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted. The Trust’s ability to access the China A Shares market (and hence to pursue its investment strategy) will be adversely affected.

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*Restrictions on selling imposed by front-end monitoring* – Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise SSE or SZSE will reject the sell order concerned. SEHK will carry out pre-trade checking on China A Share sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

Generally, if the Trust desires to sell certain China A Shares it holds, it must transfer those China A Shares to the respective accounts of its brokers before the market opens on the day of selling (“**trading day**”). If it fails to meet this deadline, it will not be able to sell those shares on the trading day. Because of this requirement, the Trust may not be able to dispose of holdings of China A Shares in a timely manner.

However, the Trust may request a custodian to open a special segregated account (“**SPSA**”) in CCASS to maintain its holdings in China A Shares under the enhanced pre-trade checking model. Each SPSA will be assigned a unique “Investor ID” by CCASS for the purpose of facilitating China Stock Connect System to verify the holdings of an investor such as the Trust. Provided that there is sufficient holding in the SPSA when a broker inputs the Trust’s sell order, the Trust will be able to dispose of its holdings of China A Shares (as opposed to the practice of transferring China A Shares to the broker’s account under the current pre-trade checking model for non-SPSA accounts). Opening of the SPSA accounts for the Trust will enable it to dispose of its holdings of China A Shares in a timely manner.

*Recalling of eligible stocks* – When a stock is recalled from the scope of eligible stocks for trading via the Stock Connects, the stock can only be sold but restricted from being bought. This may affect the investment portfolio or strategies of the Trust, for example, when the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk* – The HKSCC and ChinaClear have established the clearing links and each is a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

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Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation. In that event, the Trust may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

*Participation in corporate actions and shareholders' meetings* – The HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities (as defined in the section headed “**2.3 Stock Connects**” in this Explanatory Memorandum). Where the articles of association of a listed company do not prohibit the appointment of proxy/multiple proxies by its shareholder, HKSCC will make arrangements to appoint one or more investors as its proxies or representatives to attend shareholders' meetings when instructed. Further, investors (with holdings reaching the thresholds required under the Mainland China regulations and the articles of associations of listed companies) may, through their CCASS participants, pass on proposed resolutions to listed companies via HKSCC under the CCASS rules. HKSCC will pass on such resolutions to the companies as shareholder on record if so permitted under the relevant regulations and requirements. Hong Kong and overseas investors (including the Trust) are holding SSE Securities and SZSE Securities traded via the Stock Connects through their brokers or custodians, and they will need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities and SZSE Securities may be very short. Therefore, it is possible that the Trust may not be able to participate in some corporate actions in a timely manner.

*Currency risk* – As the Trust is denominated in US dollars, the performance of the Trust may be affected by movements in the exchange rate between RMB (i.e. the currency in which SSE Securities and SZSE Securities are traded and settled) and US dollars. The Trust may, but is not obliged to, seek to hedge foreign currency risks. However, even if undertaken, such hedging may be ineffective. On the other hand, failure to hedge foreign currency risks may result in the Trust suffering from exchange rate fluctuations. For further details on exchange risk, please see risk factor “Foreign Exchange Risk” above).

*No Protection by Investor Compensation Fund* – Investments through the Stock Connects are conducted through brokers, and are subject to the risks of default by such brokers' in their obligations.

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As disclosed in the section under the heading “**2.3 Stock Connects**”, the Trust’s investments through Northbound trading under the Stock Connects are not covered by the Hong Kong’s Investor Compensation Fund. Therefore the Trust is exposed to the risks of default of the broker(s) it engages in its trading in China A Shares through the Stock Connects. Further, since the Trust is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the Mainland China.

*Regulatory risk* – The Stock Connects are novel in nature, and the Stock Connects will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the Mainland China and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connects.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change. There can be no assurance that the Stock Connects will not be abolished. The Trust, which may invest in the Mainland China stock markets through the Stock Connects, may be adversely affected as a result of such changes.

### ***Risks associated with the Small and Medium Enterprise Board of the SZSE (“SME Board”) and/or ChiNext Board of the SZSE (“ChiNext Board”)***

The Trust may have exposure to stocks listed on SME Board and/or ChiNext Board.

Higher fluctuation on stock prices - Listed companies on the SME Board and/or ChiNext Board are usually of emerging nature with smaller operating scale. Hence, they are subject to higher fluctuation in stock prices and liquidity and have higher risks and turnover ratios than companies listed on the Main Board of the SZSE (“**Main Board**”).

Over-valuation risk - Stocks listed on SME Board and/or ChiNext Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

Differences in regulation - The rules and regulations regarding companies listed on ChiNext Board are less stringent in terms of profitability and share capital than those in the Main Board and SME Board.

Delisting risk - It may be more common and faster for companies listed on the SME Board and/or ChiNext Board to delist. This may have an adverse impact on the Trust if the companies that it invests in are delisted.

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Investments in the SME Board and/or ChiNext Board may result in significant losses for the Trust and its investors.

## ***Risks Associated with CAAPs***

The policy and regulations imposed by the PRC government on the access into the China A Shares markets are subject to change and any such change may adversely impact the issuance of CAAPs invested by the Trust. Unitholders should note that there can be no assurance that the Trust may be able to maintain or obtain a sufficient investment in CAAPs. This may have an impact on the Unitholders' investment in the Trust. If any CAAP Issuer has insufficient investment quota (if applicable), the CAAP Issuer may cease to extend the duration of any CAAPs or to issue further CAAPs and the Trust may be required to dispose of its existing CAAPs.

Further, the Trust will be exposed to the counterparty risk associated with each CAAP Issuer. Because a CAAP is a payment obligation of the CAAP Issuer, rather than a direct investment in China A Shares, the Trust may suffer losses potentially equal to the full value of the CAAP if the CAAP Issuer were to become insolvent or fails to perform its payment obligations under the CAAPs.

## ***Risks associated with A Shares CIS***

*Risk related to QFII/RQFII Policy* – The current QFII/RQFII policy and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the QFII/RQFII regulations will not be abolished. The Trust, which indirectly invests in the China A Shares markets through A Shares CIS, may be adversely affected as a result of such changes.

Further, the QFII/RQFII licence of the QFII/RQFII holder of A Shares CIS may be revoked or terminated or otherwise invalidated, or the investment quota (if applicable) granted by PRC government to the QFII/RQFII holder of A Shares CIS may be reduced or withdrawn, at any time by reason of a change in applicable law, regulations, policy, practice or other circumstances, an act or omission of the QFII/RQFII holder or for any other reasons. In such event, all or part of the assets held by the Mainland China QFII/RQFII custodian for the account of the A Shares CIS will be liquidated and repatriated to a bank account maintained for and on behalf of the A Shares CIS outside of the Mainland China in accordance with applicable laws and regulations. The A Shares CIS may suffer significant loss as a result of such liquidation and repatriation, and consequently, the Trust investing in such A Shares CIS may also suffer losses.

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Under the relevant Mainland China law, regulations or measures, there are restrictions on repatriation of funds out of the Mainland China. Thus, the Trust may be exposed, indirectly, to risks associated with remittance and repatriation of monies, through its investment in A Shares CIS. The Trust may be adversely affected and may be exposed to potential losses by the ability of the underlying A Shares CIS to meet redemption requests and may therefore be subject to reduced liquidity.

*Custodial risk* – Custodians or sub-custodians may be appointed in local market for purpose of safekeeping assets of the A Shares CIS. Lack of adequate custodial systems in the Mainland China may subject the A Shares CIS to greater custodial risks. The A Shares CIS may also incur losses due to a default, act or omission of the Mainland China custodian in the execution or settlement of any transaction or in the transfer of any funds or securities. If the Mainland China custodian defaults, the A Shares CIS may suffer substantial losses. In the event of liquidation of the Mainland China custodian, the assets contained in cash account(s) with the Mainland China custodian may form part of the liquidation assets of the Mainland China custodian, and the A Shares CIS may become an unsecured creditor of the Mainland China custodian. This may affect the value of the Trust’s investments.

*Other risks* – Other factors such as RMB depreciation, restriction or delay in RMB currency conversion, QFII/RQFII investment restriction, illiquidity of the China A Shares market, and delay or disruption in execution of trades or in settlement of trades may also have negative impacts on A Shares CIS and in turn, the Trust investing in A Shares CIS under such circumstances may also incur losses.

## ***Mainland China Tax Risk***

The tax laws, regulations and practice in the Mainland China are constantly changing, and they may be changed with retrospective effect. Any increased tax liabilities on the Trust may adversely affect the Trust’s value.

The Manager will assess the tax provisioning approach on an on-going basis. Should the Mainland China tax policies change, the Manager may decide to set aside a provision to meet any potential tax liability in the future.

For further details on the risks and effects of Mainland China taxation on the Trust, please refer to the section titled “Mainland China Taxation” under the heading “TAXATION” in the Explanatory Memorandum.

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## 2.6 Securities Financing Transactions

Subject to section 2.2 “Investment Objective and Policies” above, the Trust may enter into securities financing transactions, provided that they are in the best interests of Unitholders and the associated risks have been properly mitigated and addressed.

Securities lending transactions will only be entered into:-

- (a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral;
- (b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction;
- (c) the relevant securities lent must be fully paid-up shares listed on any stock exchange, over-the-counter market or other organised securities market that is open to the international public on which such securities are regularly traded; and
- (d) the amount of consideration (including the value of any collateral) given for the relevant securities must exceed the value of such securities at any one time on daily marked to market values.

In this Explanatory Memorandum, “securities financing transactions” means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions. “Securities lending transactions” means transactions whereby the Trust lends its securities to a security-borrowing counterparty for an agreed fee; “sale and repurchase transactions” means transactions whereby the Trust sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future; and “reverse repurchase transactions” means transactions whereby the Trust purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

Further, details of the policy regarding securities financing transactions are as follows:-

- (i) all revenue arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of such transactions, will be credited to the account of the Trust;

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- (ii) each counterparty for such transactions (including a borrower for a securities lending transaction) and the issuer of collateral will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision. There is no criteria for country of origin of the counterparty. Each counterparty is expected to be (x) incorporated in countries of high credit quality, (y) have a minimum credit rating of A2/P2 or equivalent assigned by reputable credit rating agencies or in the reasonable opinion of the Manager, or deemed to have an implied rating of A2/P2 or equivalent; alternatively, an unrated counterparty will be acceptable where the Trust is indemnified against losses caused by the counterparty, by an entity which has a minimum credit rating of A2/P2 or equivalent, or (z) be a licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority when entering into such transactions;
- (iii) the Trust should have at least 100 per cent. collateralization in respect of securities financing transactions. The Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below;
- (iv) the value of the securities to be loaned, together with the value of all other securities which are the subject of a loan by the Trust does not exceed 10 per cent. of its latest available Net Asset Value;
- (v) no more than 50 per cent. of the securities of the same issue, or of the same kind (by value), held in respect of the Trust is the subject of security lending transactions at any one time;
- (vi) the Manager will ensure that it is able to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transactions or terminate such transactions into which it has entered;

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- (vii) where any securities lending transaction is arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement (the securities lending fee will be disclosed in the connected party transaction section of the Trust's annual financial reports).

In particular, The HongKong and Shanghai Banking Corporation Limited, which is a Connected Person of the Trustee, may engage in securities financing transactions with the Trust. In acting as securities lending agent, The HongKong and Shanghai Banking Corporation Limited will receive remuneration for its activities; and

- (viii) custody/safekeeping arrangements, which details are set out in the section entitled "Collateral Valuation and Management Policy" below, are in place in respect of the assets subject to the securities financing transactions.

## **Collateral Valuation and Management Policy**

The Manager employs a collateral management policy in relation to collateral received in respect of over-the-counter (OTC) FDI transactions and securities financing transactions entered into in respect of the Trust.

The Trust may receive collateral from a counterparty to an OTC FDI transaction or a securities financing transaction, so as to reduce its counterparty risk exposure as set out in paragraph (d) under the section entitled "Restrictions applicable to FDIs" below and paragraph (iii) under the section entitled "Securities financing transactions" above, provided that the collateral complies with the requirements set out below:

- Nature and quality of collateral – unless otherwise agreed by the Manager, eligible collateral include:
  - o cash, in the same currency denomination as the securities lent, or in Hong Kong or US dollars if the securities lent are denominated in a foreign currency;
  - o government or other public securities including debt securities;
  - o certificates of deposit;

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- o letters of credit which are unconditional and irrevocable and which have a credit rating of A1/P1 or better; and
  - o certificates issued by securities exchange clearing systems;
- Selection of counterparties – The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of OTC FDI transactions and securities financing transactions and will be subject to the requirements under paragraph (ii) under the section entitled “Securities financing transactions” above. In particular:
  - o the counterparties for OTC FDI transactions will be entities with legal personality typically located in Organisation for Economic Co-operation and Development (OECD) jurisdictions (but may also be located outside such jurisdictions), and be subject to ongoing supervision by a regulatory authority; and
  - o the counterparties for securities financing transactions (including a borrower for a securities lending transaction) will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision;
- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing. Regular stress tests are carried out under normal and exceptional liquidity conditions to enable an adequate assessment of the liquidity risks attached to the collateral;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Issuer credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;

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- Haircut – a haircut is a discount applied to the value of a collateral asset to account for the fact that its valuation, or liquidity profile, may deteriorate over time. Collateral should be subject to prudent haircut policy, which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets:
  - o the haircut policy takes into account the price volatility of the asset used as collateral and, where appropriate, other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the transactions; and
  - o the haircut policy applied to posted collateral will be negotiated on a counterparty basis and will vary depending on the class of asset received by the Trust. Further details of the applicable haircut arrangement for each asset class is available from the Manager upon request;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Trust’s exposure to issuer(s) of the collateral should be taken into account in compliance with the corresponding investment restrictions and limitations set out in the paragraphs (a), (b), (c), (f), (g), (j)(1), j(2), provisos of (i) to (iii) of paragraph (j), (k) and (B) under the section entitled “Investment Restrictions” below;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions in such a way that it would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;

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- Independent custody - collateral must be held by the Trustee of the Trust;
- Safe-keeping of collateral and assets subject to securities financing transactions
  - o any non-cash assets received by the Trust from a counterparty on a title transfer basis (whether in respect of a securities lending transaction or an OTC FDI transaction) shall be held by the Trustee, or a nominee, agent or delegate appointed in relation the assets of the Trust. This is not applicable in the event that there is no title transfer and, in which case, the collateral will be held by a third party custodian which is unrelated to the provider of the collateral; and
  - o assets provided by the Trust on a title transfer basis (in respect of a sale and repurchase transaction) shall no longer belong to the Trust. The counterparty may use those assets at its absolute discretion. Assets provided to a counter party other than on a title transfer basis shall be held by the Trustee or a nominee, agent or delegate appointed in relation the assets of the Trust;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs, or the counterparty of securities financing transactions;
- Re-investment of collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code and the following restrictions:
  - o non-cash collateral received may not be sold, re-invested or pledged;
  - o the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2 (f) and 8.2(n) of the Code;
  - o cash collateral received is not allowed to be further engaged in any securities financing transactions;

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- o when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions; and
- o up to 100 per cent. of the cash collateral received by the Trust may be reinvested.

For the purposes of re-investment of cash collateral received, “money market instruments” refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments will be taken into account;

- Encumbrances - collateral should be free of prior encumbrances; and
- Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes.

The requirements under paragraphs (a) and (b) under the section entitled “Investment Restrictions” below will also apply in the case of the “Diversification” and “Re-investment of collateral” requirements of this section.

A description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Trust (by percentage) secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Trust’s annual and interim reports for the relevant period.

If any of the restrictions or limitations set out above is breached in respect of the Trust, the Manager will, as a priority objective, take all necessary steps within a reasonable period of time to remedy such breach, taking due account of the interests of the Unitholders of the Trust.

## **2.7 Investment Restrictions**

Unless otherwise approved by the SFC, the following principal investment restrictions apply to the Trust:

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- (a) the aggregate value of the Trust's investments in, or exposure to, any single entity (other than Government and other public securities) through the following may not exceed 10 per cent. of the latest available Net Asset Value of the Trust:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
  
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the Trust's investments in, or exposure to, entities within the same group through the following may not exceed 20 per cent. of the latest available Net Asset Value of the Trust:
  - (1) investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
  
- (c) unless otherwise approved by the SFC, the value of the Trust's cash deposits made with the same entity or entities within the same group may not exceed 20 per cent. of the latest available Net Asset Value of the Trust, unless:
  - (1) the cash is held before the launch of the Trust and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Trust, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or
  - (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

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For the purposes of this paragraph, “cash deposits” generally refers to those that are repayable on demand or have the right to be withdrawn by the Trust and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity held for the account of the Trust may not exceed 10 per cent. of the nominal amount of the ordinary shares issued by the same entity;
- (e) not more than 15 per cent. of the latest available Net Asset Value of the Trust may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (f) notwithstanding (a), (b) and (d), not more than 30 per cent. of the latest available Net Asset Value of the Trust may be invested in Government and other public securities of the same issue;
- (g) subject to (f), the Trust may fully invest in Government and other public securities in at least six different issues; “Government and other public securities” means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies. 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;
- (h) unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary, the Trust may not invest in physical commodities;
- (i) unless otherwise provided under the Code, the spread requirements under paragraphs (a), (b), (d) and (e) do not apply to investments in other collective investment schemes by the Trust and for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the Code; or

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- (2) listed and regularly traded on internationally recognised stock exchanges open to the public (nominal listing not accepted) and:
  - (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or
  - (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in paragraph (j)(1), (j)(2), provisos of (i) to (iii) of paragraph (j) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and, unless otherwise specified in this Explanatory Memorandum, investment by the Trust in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

- (j) where the Trust invests in shares or units of other collective investment schemes (“underlying schemes”),
  - (1) the value of the Trust’s investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10 per cent. of the latest available Net Asset Value of the Trust; and
  - (2) the Trust may invest in one or more underlying schemes which are either authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Trust’s investment in units or shares in each such underlying scheme may not exceed 30 per cent. of the latest available Net Asset Value of the Trust, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in this Explanatory Memorandum,

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provided that in respect of (1) and (2) above:

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Trust may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100 per cent. of its latest available Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (i) above in compliance with paragraph (j)(1) and (j)(2);
  - (ii) where the underlying schemes are managed by the Manager or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;
  - (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
  - (iv) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme (s) must be waived; and
  - (v) the Manager or any person acting on behalf of the Trust or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of a underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;
- (k) in the case of investments in shares in real estate companies and interests in REITs, the Trust shall comply with the requirements under paragraphs (a), (b), (d), (e) and (j)(1) above where applicable. Where investments are made in listed REITs, the requirements under paragraphs (a), (b) and (d) above apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under paragraphs (e) and (j)(1) above apply respectively;

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- (l) if the name of the Trust indicates a particular objective, investment strategy, geographic region or market, the Trust should, under normal market circumstances, invest at least 70 per cent. of its latest available Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Trust represents; and
- (m) notwithstanding paragraphs (a), (b), (d) and (e) above, where direct investment by the Trust in a market is not in the best interests of investors, the Trust may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Trust, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the Trust as a result must be clearly disclosed in this Explanatory Memorandum; and
  - (3) the Trust must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Trust.

In this Explanatory Memorandum, “entities within the same group” means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.

The Trust shall not:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5 per cent. of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager own more than 5 per cent. of those securities;
- (B) 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 and interests in REITs);

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- (C) make short sales if as a result the Trust would be required to deliver securities exceeding 10 per cent. of the latest available Net Asset Value of the Trust (and for this purpose (i) securities sold short must be actively traded on a market where short selling is permitted; and (ii) short selling is carried out in accordance with all applicable laws and regulations);
- (D) carry out any naked or uncovered short sale of securities;
- (E) lend or make a loan out of the assets of the Trust, except to the extent that, in either case, the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (F) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (G) enter into any obligation in respect of the Trust or acquire any asset or engage in any transaction for the account of the Trust which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the Trust; or
- (H) apply any part of the Trust 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 the Trust whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

## **Borrowing restrictions**

The maximum borrowing of the Trust shall not exceed 10 per cent. of its latest available Net Asset Value. Where the Manager so determines, the Trust's permitted borrowing level may be a lower percentage. In determining for the purpose of these borrowing limits, back-to-back loans do not count as borrowing. The assets of the Trust may be charged or pledged as security for any such borrowings in accordance with the provisions of the Trust Deed.

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For the avoidance of doubt, securities lending transactions and sale and repurchase transactions (subject to the section “2.2 Investment Objective and Policies” above) in compliance with the requirements set out in the section headed “Securities financing transactions” are not subject to the limitations in this section.

## **Financial derivative instruments**

Subject always to the provisions of the Trust Deed, the Code, and section 2.2 “Investment Objective and Policy” above, the Manager may on behalf of the Trust enter into any transactions in relation to swaps or other FDIs, for hedging or non-hedging (investment) purposes:

### *Hedging purposes*

The Trust may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purposes if they meet all of the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

The Manager, where it deems necessary, shall cause hedging arrangement to be adjusted or re-positioned with due consideration on the fees, expenses and costs, to enable the Trust to meet its hedging objective in stressed or extreme market conditions.

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## *Non-hedging (investment) purposes*

The Trust may acquire FDIs for non-hedging purposes (“investment purposes”), subject to the limit that the Trust’s net exposure relating to these FDIs (“net derivative exposure”) does not exceed 50 per cent. of its latest available Net Asset Value and any relevant qualifications under the heading entitled “2.2 Investment Objective and Policy” in the section headed “2. INFORMATION ON THE TRUST”, provided that this limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. In this regard:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Trust for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) for the avoidance of doubt, FDIs acquired for hedging purposes will not be counted towards the 50 per cent. limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

## *Restrictions applicable to FDIs*

The FDIs invested by the Trust shall be either listed or quoted on a stock exchange, or dealt in over-the-counter market and comply with the following provisions:

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Trust may invest according to its investment objectives and policies;

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- (b) where the Trust invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions set out in paragraphs (a), (b), (c) and (f) of the section headed “Investment Restrictions” above provided that the index is in compliance with the relevant requirements under Chapter 8.6 of the Code;
- (c) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (d) subject to paragraphs (a) and (b) under the section entitled “Investment Restrictions” above, the Trust’s net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10 per cent. of the latest available Net Asset Value of the Trust, provided that the exposure of the Trust to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Trust and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (e) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Trust. Further, the administrator/calculation agent should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in paragraphs (a) and (b) under the section entitled “Investment Restrictions” above and paragraph (d) of this section will not apply to FDIs that are:

- (A) transacted on an exchange where the clearing house performs a central counterparty role; and
- (B) marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

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Subject to the above, the Trust may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the Trust, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in the paragraphs (a), (b), (c), (f), (g), (j)(1), (j)(2), provisos of (i) to (iii) of paragraph (j), (k) and (B) under the section entitled “Investment Restrictions” above.

The Trust shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. For such purposes, assets that are used to cover the Trust’s payment and delivery obligations incurred under transactions in FDIs should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

A transaction in FDIs which gives rise to a future commitment or contingent commitment of the Trust should also be covered as follows:

- (a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Trust should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of FDIs transactions which will, or may at the counterparty’s discretion, require physical delivery of the underlying assets, the Trust should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Trust may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation.

In the case of holding alternative assets as cover, the Trust shall apply safeguard measures, such as to apply haircut where appropriate, to ensure that such alternative assets held are sufficient to meet its future obligations.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well.

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In this Explanatory Memorandum, “substantial financial institution” means an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HKD2 billion or its equivalent in foreign currency.

## **2.8 Other Provisions relating to Investment, Borrowing and Security Lending**

The Manager may also (although it will not be under any obligation to do so), from time to time, formulate such other investment, borrowing and security lending limitations and prohibitions in accordance with the provisions of the Trust Deed.

Any limitation on investment, borrowing or security lending to be measured by reference to the latest available Net Asset Value of the Trust shall be measured by reference to the latest available Net Asset Value of the Trust before the time the relevant investment, borrowing or security lending is made.

If any of the restrictions or limitations set out above is breached in respect of the Trust, the Manager will, as a priority objective, take all necessary steps within a reasonable period of time to remedy such breach, taking due account of the interests of the Unitholders of the Trust.

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## 3. SUBSCRIPTION AND REDEMPTION OF UNITS

### 3.1 Summary of Features

As at the date of this Explanatory Memorandum, the Trust comprises the following Classes of Units:

- Class A Acc HKD Hedged
- Class A Acc JPY Hedged
- Class A Acc RMB Unhedged
- Class A Acc RMB Hedged
- Class A Acc SGD Hedged
- Class A1
- Class A2 MDis
- Class A2 MDis HKD
- Class A2 MDis AUD Hedged
- Class A2 MDis CAD Hedged
- Class A2 MDis GBP Hedged
- Class A2 MDis NZD Hedged
- Class A2 MDis HKD Hedged
- Class A2 MDis JPY Hedged
- Class A2 MDis SGD Hedged
- Class A2 MDis RMB Unhedged
- Class A2 MDis RMB Hedged
- Class X Acc USD Unhedged
- Class X MDis USD Unhedged
- Class Z

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The key features of the Classes of Units are summarised below:

Classes currently available for subscription				
	Class A1 and Class A2 MDIs	Class Z	Class A Acc HKD Hedged, Class A2 MDIs HKD and Class A2 MDIs HKD Hedged	Class A2 MDIs AUD Hedged
Currency of Issue of a Class (the "Class Currency")	US\$ Dollars ("US\$")	US\$	Hong Kong Dollars ("HKD")	Australian Dollars ("AUD")
Minimum Initial Subscription	US\$10,000 (inclusive of any Preliminary Charge)	US\$10,000,000 (inclusive of any Preliminary Charge)	HKD80,000 (inclusive of any Preliminary Charge)	AUD10,000 (inclusive of any Preliminary Charge)
Minimum Subsequent Subscription	US\$5,000 (inclusive of any Preliminary Charge)	US\$100,000 (inclusive of any Preliminary Charge)	HKD40,000 (inclusive of any Preliminary Charge)	AUD5,000 (inclusive of any Preliminary Charge)
Minimum Redemption	Not applicable	US\$100,000 (inclusive of any Preliminary Charge)	Not applicable	Not applicable
Minimum Holding for Each Class of the Trust Applicable to Partial Redemption, Transfers and Switching	US\$10,000	US\$5,000,000	HKD80,000	AUD10,000
Preliminary Charge on Subscription	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price
Switching Fee	Currently Nil*	Currently Nil*	Currently Nil*	Currently Nil*
Redemption Charge	Currently Nil (Max. 5.0 per cent.)			
Annual Management Fee	1.25 per cent. per annum (Max. 2.0 per cent.)	0.75 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)
Performance Fee	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis

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	<b>Class A2 MDis CAD Hedged</b>	<b>Class A2 MDis GBP Hedged</b>	<b>Class A2 MDis NZD Hedged</b>	<b>Class A Acc SGD Hedged and Class A2 MDis SGD Hedged</b>
Currency of Issue of a Class (the "Class Currency")	Canadian Dollars ("CAD")	Pounds Sterling ("GBP")	New Zealand Dollars ("NZD")	Singapore Dollars ("SGD")
Minimum Initial Subscription	CAD10,000 (inclusive of any Preliminary Charge)	GBP10,000 (inclusive of any Preliminary Charge)	NZD10,000 (inclusive of any Preliminary Charge)	SGD10,000 (inclusive of any Preliminary Charge)
Minimum Subsequent Subscription	CAD5,000 (inclusive of any Preliminary Charge)	GBP5,000 (inclusive of any Preliminary Charge)	NZD5,000 (inclusive of any Preliminary Charge)	SGD5,000 (inclusive of any Preliminary Charge)
Minimum Redemption	Not applicable	Not applicable	Not applicable	Not applicable
Minimum Holding for Each Class of the Trust Applicable to Partial Redemption, Transfers and Switching	CAD10,000	GBP10,000	NZD10,000	SGD10,000
Preliminary Charge on Subscription	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price
Switching Fee	Currently Nil*	Currently Nil*	Currently Nil*	Currently Nil*
Redemption Charge	Currently Nil (Max. 5.0 per cent.)			
Annual Management Fee	1.25 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)
Performance Fee	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis

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	<b>Class A Acc RMB Unhedged, Class A Acc RMB Hedged, Class A2 MDIs RMB Unhedged and Class A2 MDIs RMB Hedged</b>	<b>Class A Acc JPY Hedged and Class A2 MDIs JPY Hedged</b>	<b>Class X Acc USD Unhedged and Class X MDIs USD Unhedged</b>
Currency of Issue of a Class (the "Class Currency")	Renminbi ("RMB")	Japanese Yen ("JPY")	US Dollars ("USD")
Minimum Initial Subscription	RMB60,000 (inclusive of any Preliminary Charge)	JPY1,000,000 (inclusive of any Preliminary Charge)	Nil
Minimum Subsequent Subscription	RMB30,000 (inclusive of any Preliminary Charge)	JPY500,000 (inclusive of any Preliminary Charge)	Nil
Minimum Redemption	Not applicable	Not applicable	Not applicable
Minimum Holding for Each Class of the Trust Applicable to Partial Redemption, Transfers and Switching	RMB60,000	JPY1,000,000	Nil
Preliminary Charge on Subscription	Up to 5.0 per cent. of the Issue Price	Up to 5.0 per cent. of the Issue Price	Nil
Switching Fee	Currently Nil*	Currently Nil*	Currently Nil
Redemption Charge	Currently Nil (Max. 5.0 per cent.)	Currently Nil (Max. 5.0 per cent.)	Nil
Annual Management Fee	1.25 per cent. per annum (Max. 2.0 per cent.)	1.25 per cent. per annum (Max. 2.0 per cent.)	Nil
Performance Fee	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	15.0 per cent. of the increase in Net Asset Value per Unit in the relevant Class in the relevant performance period calculated annually on a high-on-high basis	Nil

\* Certain distributors may impose a charge for each switching of Units acquired through it for Units in another Class, which will be deducted at the time of the switching and paid to the relevant distributor. Unitholders who intend to switch their Units from one Class to Units in another Class should check with their respective distributors for the charge on switching.

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## 3.2 Dealing Periods

The Trust is valued as at the close of business in the last market to close of all relevant markets in which the Trust is invested (or at such other time as the Manager may, with the consent of the Trustee, determine) on each Valuation Day. Valuation Day is currently each Business Day and/or such other day or days as the Manager may, in consultation with the Trustee and upon reasonable prior written notice to the Unitholders, determine from time to time. A Business Day is a day when banks in Hong Kong are open for general business except for: (i) a Saturday or Sunday; (ii) a day on which banks in Hong Kong are open for a shorter time as a result of a Typhoon Signal, a Rainstorm Warning or similar event, unless the Manager, with the consent of the Trustee, determines otherwise.

Investors may subscribe for, or redeem, Units of the relevant Class at the Issue Price and Redemption Price respectively, denominated in the Class Currency of the relevant Class and based on the Net Asset Value per Unit in the relevant Class as determined on a Valuation Day in the manner described under section 3.9 of this Explanatory Memorandum. Please refer to section 5.1 of this Memorandum for details of any applicable Preliminary and Redemption Charges.

At present, Dealing Periods are periods which commence at the end of the preceding Dealing Period and end in Hong Kong at 5:00 p.m. (Hong Kong time) on each Valuation Day.

Dealing Periods for other jurisdictions may be determined as the need arises but, in all cases, the principle will be maintained that the Dealing Period must end at or prior to 5:00 p.m. (Hong Kong time) on each relevant Valuation Day, as determined by the Manager.

The Manager has power to alter the Dealing Periods in any jurisdiction, to determine that Dealing Periods should be referable to a different Valuation Day, and to change the time at which the Trust is valued on each Valuation Day provided that any permanent alterations will be made with one month's prior written notice (or such shorter notice period as approved by the SFC) to Unitholders. The Manager may, at its discretion, make one or more of these alterations on a temporary basis but does not intend to do so unless under the circumstances (including, but not limited to, future operational requirements or the acquisition of investments on different markets) make it desirable.

## 3.3 Subscription for Units

All applications to subscribe for Units are subject to the terms, conditions and restrictions of this Explanatory Memorandum and the Trust Deed.

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The Manager may, at its discretion, waive the minimum initial subscription and minimum subsequent subscription amounts of a Class as set out under section 3.1 “Summary of Features” of this Explanatory Memorandum, whether generally or in a particular case. The Manager may on any Valuation Day differentiate between applicants as to the amount of the Preliminary Charge to be added to the Issue Price of Units in each Class to be issued to them respectively on that day. For further details of the Preliminary Charge, please refer to section 5.1 of this Explanatory Memorandum.

Applications for subscription of Units of the relevant Class must be sent to the administrator by post to the business address or, if the applicant has provided the Manager with an original fax indemnity in the form prescribed by the Manager from time to time (with the consent of the Trustee), by fax to the fax number shown on the Subscription Form or other written or electronic means specified by the Manager, unless an original fax indemnity was previously provided to the Manager. All initial applications for subscription of Units of the relevant Class must be made on the Subscription Form which accompanies this Explanatory Memorandum and if sent by fax or other written or electronic means, must be followed by duly signed original applications for subscription. The Manager may, in its absolute discretion, determine whether or not duly signed original applications are also required in respect of subsequent applications for subscription sent by fax or other written or electronic means.

Applications for subscription (whether by post, fax or other written or electronic forms specified by the Manager) must be received by the administrator by 5:00 p.m. (Hong Kong time) on the Valuation Day of any Dealing Period in order to be dealt with by reference to that Valuation Day. However, the Manager may in the future stipulate that such an application shall be subject to the expiration of a period of notice.

Where such minimum notice period is stipulated by the Manager, any application for subscription of Units of the relevant Class shall be treated as having been received in the Dealing Period in which the minimum notice period expires. The Issue Price per Unit of the relevant Class will be the Net Asset Value per Unit of the relevant Class calculated as at that Valuation Day. Valid applications for subscription received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator after 5:00 p.m. (Hong Kong time) on a Valuation Day will be deemed to have been received, and will be dealt with, in the next Dealing Period and with reference to the Valuation Day coinciding with the close of such succeeding Dealing Period.

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## 3.4 Redemption of Units

All applications to redeem Units are subject to the terms, conditions and restrictions of this Explanatory Memorandum and the Trust Deed.

The minimum redemption for Class Z Units (inclusive of the Redemption Charge) will be US\$100,000. The Manager may on any Valuation Day differentiate between applicants as to the amount of the Redemption Charge to be added to the Redemption Price of Units to be redeemed by them respectively on that day. For further details of the Redemption Charge, please refer to section 5.1 of this Explanatory Memorandum.

Requests to redeem Units may be made to the administrator during any Dealing Period in writing and sent by post to the business address or, if the relevant Unitholder has provided the Manager with an original fax indemnity in the form prescribed by the Manager from time to time (with the consent of the Trustee), by fax to the fax number shown on page 7 of this Explanatory Memorandum or other written or electronic means specified by the Manager, unless an original fax indemnity was previously provided to the Manager. Redemption requests should specify the number of Units to be redeemed, the name in which such Units are registered and details of the bank account (if any) to which the redemption monies are to be transferred. All initial requests for redemption of Units sent by fax or other written or electronic means must be followed by duly signed original requests for redemption. The Manager may, in its absolute discretion, determine whether or not duly signed original requests are also required in respect of subsequent requests for redemption sent by fax or other written or electronic means.

All redemption requests must be signed by the Unitholder or, in the case of joint Unitholders, such one or more joint Unitholders who have been authorised to sign such requests on behalf of the other joint Unitholders (where such authorisation has been notified in writing to the administrator or, in the absence of such notification, by all joint Unitholders).

Applications for redemption (whether by post, fax or other written or electronic forms specified by the Manager) must be received by the administrator by 5:00 p.m. (Hong Kong time) on the Valuation Day of any Dealing Period in order to be dealt with by reference to that Valuation Day. The Redemption Price per Unit of the relevant Class will be the Net Asset Value per Unit of the relevant Class calculated as at that Valuation Day.

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Valid applications for redemption received (whether by post, fax or other written or electronic forms specified by the Manager) by the administrator after 5:00 p.m. (Hong Kong time) on a Valuation Day will be deemed to have been received, and will be dealt with, in the next Dealing Period and with reference to the Valuation Day coinciding with the close of such succeeding Dealing Period.

Unitholders should note that redemption monies will not be paid to any Unitholder until (a) the duly signed original written redemption request (if such original is required by the Manager) and all other supporting documents (if any are required) have been received by the administrator; and (b) if the redemption proceeds are to be paid by telegraphic transfer to a bank account in the state of New York in the United States, in Hong Kong, in Australia, in Canada, in the United Kingdom, in New Zealand or in Singapore, the signature of the Unitholder (or the relevant joint Unitholder or Unitholders) on the redemption request form must be verified by a banker or some other person acceptable to the administrator. No redemption proceeds will be paid to third parties.

Redemption proceeds will normally be paid in the Class Currency of the relevant Class by telegraphic transfer according to instructions given by the relevant Unitholder(s) to the Manager or by cheque made in favour of, and sent at the risk of the person(s) entitled to such proceeds to the registered address of the Unitholder or (in the case of joint Unitholders) the first named joint Unitholder appearing on the register of Unitholders or to the registered address of such other of the joint Unitholders as may be authorized in writing by all of them. If there is no delay in submitting all duly completed redemption documentation and the Manager is not exercising any of its powers described in section 3.8 of this Explanatory Memorandum below, the maximum interval between the receipt of a properly documented request for redemption of Units and payment of redemption proceeds to the Unitholders may not exceed one calendar month.

In respect of Class A Acc RMB Unhedged Units, Class A Acc RMB Hedged Units, Class A2 MDIs RMB Unhedged Units and Class A2 MDIs RMB Hedged Units, redemption moneys will also be paid in RMB under normal circumstances. However, where the Trust is not able to get sufficient amounts of RMB under extreme market conditions to meet redemption requests of such RMB Classes of Units, the Manager may pay redemption moneys in USD or delay the payment of redemption moneys. For further details relating to the associated risks, please refer to the risk factor titled “Risks associated with RMB Classes of Units” under the “Risk Factors” section.

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If at any time during the period from the time as at which the Redemption Price of the relevant Class of Units is calculated and the time at which redemption proceeds are converted out of any other currency into the relevant Class Currency there is an officially announced devaluation or depreciation of that other currency, the amount payable to any relevant redeeming Unitholder may be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.

All bank charges and administrative costs incurred in settling redemption proceeds to the Unitholder(s) will be borne by the relevant Unitholder(s) and deducted from the redemption proceeds. Any risks arising from delay in clearance of funds by banks or from sending out the cheque by post will be borne by the relevant Unitholders. A Redemption Charge of up to 5.0 per cent. of the Redemption Price per Unit of the relevant Class may also be deducted. Currently, the Manager has waived the Redemption Charge applicable to the redemption of Units of the relevant Class. However, the Manager may re-introduce a Redemption Charge in respect of a Class of Units at any time up to the maximum level of 5.0 per cent. with 1 month's prior notice (or such shorter notice period as approved by the SFC) to Unitholders.

With the prior consent of the Manager, arrangements can be made for redemption proceeds to be paid in any major currency other than the Class Currency of the relevant Class of Units being redeemed. Such alternative settlement instructions should be specified in the redemption request. The costs of any currency conversion (to be effected at such rates as the Manager may, in its discretion, deem appropriate) and other administrative expenses will be borne by the relevant Unitholder(s). Such currency conversion will be carried out at arm's length and executed on the best available terms.

With a view to protecting the interests of Unitholders, the Manager may limit the total number of Units which Unitholders are entitled to redeem in any Dealing Period to 10 per cent. of the total Net Asset Value of the Trust on the Valuation Day for that Dealing Period. Such limitation will be applied pro rata to all Unitholders who have requested such redemption. Redemption requests for Units which are not redeemed will be carried forward to the next Dealing Period to be redeemed by reference to the next Valuation Day (subject to being further deferred if the carried forward requests themselves exceed 10 per cent. of the total Net Asset Value of the Trust on such Valuation Day) provided that redemption requests carried forward from an earlier Valuation Day shall be dealt with in priority to later requests.

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Partial redemptions may be effected. However, if a redemption request will result in a Unitholder having a residual holding of less than the minimum holding amount of the relevant Class as set out under section 3.1 “Summary of Features” of this Explanatory Memorandum, or such other minimum holding for each Class of the Trust prescribed by the Manager from time to time, by reference to the Valuation Day on which the relevant redemption request is effected, the Manager may deem such redemption request to have been made in respect of all the Units held by that Unitholder. The Manager may, at its discretion, waive the requirement for a minimum holding and/or minimum redemption amount of Units (in whole or in part), whether generally or in a particular case.

## **3.5 Transfers**

Unitholders are entitled to transfer Units by an instrument in writing in such form as the Manager may from time to time prescribe signed by both the transferor and the transferee and left with the administrator for registration. All forms for the transfer of Units sent by fax or other written or electronic means specified by the Manager to the administrator must be followed by the duly signed original forms and the transfer of Units will only be effected upon receipt of the original executed transfer forms.

No transfer will be accepted if, as a result of such transfer, the value of Units held by either the transferor or the transferee is less than the minimum holding amount of the relevant Class as set out under section 3.1 “Summary of Features” of this Explanatory Memorandum, or such other minimum holding specified by the Manager from time to time; or Units are acquired or held by a non-qualified person as described under section 6.6 of this Explanatory Memorandum.

Currently, the register of the Trust is located outside of Hong Kong. Please refer to the section 4.1 of this Explanatory Memorandum for the stamp duty consequences of the register of the Trust being located outside of Hong Kong.

## **3.6 Switching of Units between different Classes**

Unitholders will be able to switch, during any Dealing Period, all or part of their holdings of any Class of Units into Units of any other Class.

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Applications for switching of Units may be made to the administrator during any Dealing Period in writing and sent by post to the business address or by fax to the fax number shown under the section headed “**1. MANAGEMENT AND ADMINISTRATION**” or other written or electronic means specified by the Manager. In respect of any faxed instructions or other written or electronic means, the duly signed original applications must follow such instructions, unless an original fax indemnity was already previously provided to the Manager.

All applications for switching received will be dealt with in the same manner as applications for subscriptions and redemptions. Switches will be calculated on a redemption to subscription price basis by reference to the prices of the relevant Classes of Units. Switches may be combined with partial redemptions. Currently, no switching fee will apply to the switching of Units between different Classes.\*

\* Certain distributors may impose a charge for each switching of Units acquired through it for Units in another Class, which will be deducted at the time of the switching and paid to the relevant distributor.

Partial switches must not result in the Unitholder’s holding in each Class of Units being less than any minimum holding for the relevant Class of the Trust prescribed by the Manager from time to time. If a request for partial switching will result in either of these holdings being less than any such prescribed minimum holding, the switching request will be deemed to be in respect of the Unitholder’s entire holding in the first Class of Units and the Units will be switched accordingly in their entirety.

## **3.7 Fax or Electronic Instructions**

All instructions received by fax or any electronic means from investors or Unitholders in respect of the subscription or redemption of Units (whether or not the duly signed original applications or requests are also required by the Manager to follow such faxed or electronic instructions) will generally be acted upon by the Manager subject to its absolute discretion not to, and instructing the Trustee not to, do so until the original written instructions are received. All initial applications for subscriptions of Units sent by fax or any electronic means must be followed by duly signed original applications for subscription.

All Unitholders who wish to give instructions relating to subscription or redemption of Units by fax or any electronic means must provide to the Manager an original fax indemnity in the form prescribed by the Manager from time to time (with the consent of the Trustee), unless an original fax indemnity was already previously provided to the Manager.

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Neither the Manager nor the Trustee nor any of their agents, employees or delegates will be liable for any loss which the relevant investor or Unitholder may suffer arising from (a) either the Manager or the Trustee or any of their agents, employees or delegates acting on any faxed or electronic instructions which they believe in good faith to have originated from properly authorised persons; or (b) the Manager exercising its absolute discretion not to, and instructing the Trustee or any of their agents, employees or delegates not to, act on such faxed or electronic instructions; or (c) any faxed or electronic instructions which are illegible or not received by the Manager or the Trustee. Moreover, without written confirmation of receipt by the Manager or the Trustee, a transmission report produced by the originator of the facsimile or electronic transmission disclosing the transmission was sent shall not be sufficient proof of receipt thereof by the Manager or the Trustee.

## 3.8 Suspension of the Determination of Net Asset Value

The Manager may, in consultation with the Trustee, having regard to the best interests of the Unitholders, declare a suspension of the determination of the Net Asset Value of the Trust if:

- (a) there is in existence any state of affairs prohibiting the normal disposal of the investments of the Trust; or
- (b) (other than ordinary holiday or customary weekend closings) there is a closure of or the suspension or restriction of trading on any market to which a material part of the investments of the Trust is exposed; or
- (c) there is a breakdown in any of the means normally employed in determining the Net Asset Value of the Trust or the Net Asset Value per Unit of the relevant Class of the Trust or when for any other reason the value of any securities or other property for the time being comprised in the Trust cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (d) for any other reason the prices of investments comprised in the Trust or which the Manager shall have agreed to acquire for the account of the Trust cannot, in the opinion of the Manager, be ascertained promptly and accurately; or
- (e) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any securities held or contracted for the account of the Trust or it is not possible to do so without seriously prejudicing the interest of the Unitholders; or

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- (f) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the securities of the Trust or the subscription or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange.

A suspension of the determination of the Net Asset Value shall take effect immediately upon the declaration by the Manager, following which there shall be no determination of the Net Asset Value or Net Asset Value per Unit or the Issue Price or the Redemption Price of the relevant Class until the suspension shall have terminated. No Units will be issued or redeemed during any period of suspension.

Whenever the Manager declares such a suspension, it shall immediately after any such declaration notify the SFC of such suspension.

Notice of declaration of suspension shall be published immediately after any such declaration and at least once a month during the period of such suspension on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*

## 3.9 Calculation and Publication of Net Asset Value

The Net Asset Value of the Trust will be calculated by valuing the assets of the Trust and deducting the liabilities attributable to the Trust in accordance with the terms of the Trust Deed.

The Manager, in consultation with the Trustee, shall determine the Net Asset Value of each Class by:

- (i) (prior to the accrual of fees pursuant to sub-paragraph (ii) below) apportioning the Net Asset Value of the Trust between the Classes in accordance with the previous Net Asset Value (before accrual for any performance fees) of each Class; and
- (ii) then, deducting the fees, costs, expenses or other liabilities attributable to that Class in order to arrive at the actual Net Asset Value of each Class.

The Net Asset Value per Unit in a Class is calculated by dividing the Net Asset Value of the relevant Class by the number of Units in issue under the relevant Class. All such calculations are carried out with the intention to properly reflect the comparative differences in fees, costs, expenses or other liabilities which are borne differently between the Classes.

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\* *This website has not been reviewed or authorised by the SFC.*

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The value of the assets of the Trust will be determined by the Manager, in consultation with the Trustee, as at each valuation point in accordance with the Trust Deed. The Trust Deed provides (inter alia) that:

- (a) investments (other than a commodity, futures contract or an interest in an unlisted collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the price appearing to the Trustee to be the last traded price or “exchange close” price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market in accordance with its local rules and customs which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account 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 (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit with regard to the valuation of investments and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;

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- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the Trust in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Trustee on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a person, firm or institution making a market in such investments or otherwise approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (d) the value of any commodity or futures contract shall be ascertained in such manner as the Manager, in consultation with the Trustee, shall think fit, but so that:
  - (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager, in consultation with the Trustee, shall consider appropriate;
  - (ii) if any such price as referred to in (i) is not, in the opinion of the Manager, reasonably up-to-date or is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;

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- (iii) the value of any futures contract (the “relevant Contract”), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Trust in order to close the relevant Contract and the amount expended out of the Trust in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Trust in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Trust in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
- (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme (other than an interest in a listed collective investment scheme) which is valued as at the same day as the Trust shall be the Net Asset Value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Manager so determines, if such collective investment scheme is not valued as at the same day as the Trust, shall be the last published Net Asset Value per unit, share or other interest in such collective investment scheme, provided that if no Net Asset Value is available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Trustee;

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- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to reflect the fair value of the investment; and
- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the base currency of the Trust or the currency of denomination of the relevant Class will be converted into the base currency or the currency of denomination of such Class (as the case may be) 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 Net Asset Value per Unit of each Class will be rounded to the nearest two decimal places and any smaller fraction of a Unit will be retained for the benefit of the Trust.

The Net Asset Value per Unit of each Class is published on every Business Day on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

## 3.10 Form of Units

A contract note will normally be issued by the administrator as soon as practicable after the relevant Valuation Day upon acceptance of an application for subscription or switching of Units. Certificates for Units will, however, not normally be issued. The number of Units to be issued pursuant to any application for subscription or switching will be rounded down to two decimal places and any monies representing any lesser fraction of a Unit shall be retained for the benefit of the Trust.

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\* *This website has not been reviewed or authorised by the SFC.*

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## 4 TAXATION

**The following comments are based on advice received by the Manager regarding current law and practice and are intended to assist investors. Investors should appreciate that as a result of changing law or practice, or unfulfilled expectations as to how the Trust or Unitholders will be regarded by revenue authorities in different jurisdictions, the taxation consequences for Unitholders may be otherwise than as stated below.**

Investors should consult their professional advisers on the possible tax consequences of their subscribing for, purchasing, holding, selling or redeeming Units under the laws of their jurisdictions of citizenship, residence, ordinary residence or domicile.

### 4.1 Hong Kong

#### *The Trust*

##### *Profits Tax*

The Trust has been authorised by the SFC pursuant to Section 104 of the Securities and Futures Ordinance. Accordingly, profits of the Trust arising from the sale or disposal of securities, net investment income received by or accruing to the Trust and other profits of the Trust are exempted from Hong Kong profits tax for so long as the Trust is so authorised.

##### *Stamp Duty*

The sale or purchase of Hong Kong stocks by the Trust will be subject to stamp duty in Hong Kong at the current rate of HK\$1 per HK\$1,000 or part thereof of the price or market value of the stocks, whichever is higher, unless specific exemptions apply.

#### *The Unitholders*

##### *Profits Tax*

No tax will be payable by Unitholders in Hong Kong in respect of income distributions from the Trust or in respect of any gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

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## *Stamp Duty*

If the register of Unitholders of the Trust is maintained in Hong Kong, no Hong Kong stamp duty will be payable by the Unitholders on the issue and/or redemption of Units of the relevant Class in the Trust. However, the transfer by Unitholders of Units in the Trust may be subject to stamp duty in Hong Kong, depending on the mode and circumstances of the transfer. Under present law in Hong Kong, each of the transferor and the transferee is liable to pay a fixed rate stamp duty at the applicable rate (currently HK\$5 on every transfer of a Unit in the Trust). Each of the transferor and the transferee may also be liable to pay ad valorem stamp duty on such transfers (calculated by reference to the value of the units transferred at the applicable rate, currently HK\$1 per HK\$1,000 or part thereof of the price or market value of the Units, whichever is higher). Currently, the register of Unitholders of the Trust is located outside of Hong Kong and therefore the aforesaid fixed rate stamp duty and ad valorem stamp duty are being exempted.

## **4.2 Mainland China Taxation**

By investing in securities (including China A Shares, China B Shares, H Shares and debt instruments) issued by Mainland China tax resident enterprises, irrespective of whether such securities are issued or distributed onshore or offshore (“**PRC Securities**”), the Trust may be subject to Mainland China taxes.

The income (including interest income and capital gains) derived from the Trust’s investments in debt securities issued by non-Mainland China issuers outside Mainland China should not be subject to Mainland China taxes.

The PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of Mainland China companies and foreign investors in such companies.

### **Corporate Income Tax (“CIT”)**

If the Trust is considered as a tax resident enterprise of the Mainland China, it will be subject to CIT at 25 per cent. on its worldwide taxable income. If the Trust is considered a non-tax resident enterprise with an establishment or place of business (“**E&P**”) in the Mainland China, the profits and gains attributable to that E&P would be subject to PRC CIT at 25 per cent.

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If the Trust is considered as a non-tax resident enterprise without an E&P in the Mainland China, it will be subject to CIT on a withholding basis (“WIT”), generally at a rate of 10 per cent., to the extent it directly derives the Mainland China sourced passive income, unless a specific exemption or reduction is available under current Mainland China tax laws and regulations or relevant tax treaties.

The Manager intends to manage and operate the Trust in such a manner that the Trust should not be treated as tax resident enterprises of the Mainland China or non-tax resident enterprises with E&P in the Mainland China for CIT purposes, although this cannot be guaranteed. As such, it is expected that the Trust should not be subject to CIT on an assessment basis and would only be subject to WIT to the extent that the Trust directly derives Mainland China sourced income in respect of its investments in PRC Securities.

## *Interest / dividend*

The Trust’s income from interests, dividends and profit distributions from Mainland China tax enterprise received by the Trust is generally subject to PRC WIT at a rate of 10 per cent., unless such WIT is subject to reduction or exemption in accordance with Mainland China tax laws and regulations or an applicable tax treaty signed with the Mainland China.

In respect of interests, under the PRC CIT Law and regulations, interest derived from government bonds issued by the State Council’s finance departments and/or local government bonds approved by the State Council is exempt from Mainland China income tax.

Further, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (the “**Mainland China-HK Arrangement**”), if a Hong Kong tax resident receives interest income from Mainland China tax resident enterprises, the WIT rate can be reduced to 7 per cent. provided that the Hong Kong tax resident is the beneficial owner of the interest income under the Mainland China-HK Arrangement and other relevant conditions are satisfied, subject to the agreement from the Mainland China tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest income received, such investment fund is generally not entitled to the reduced WIT rate of 7 per cent. In general, the prevailing rate of 10 per cent. should be applicable to the Trust.

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In respect of dividends, under the Mainland China-HK Arrangement, dividends distributed by a Mainland China tax resident to a Hong Kong tax resident would be subject to a reduced PRC WIT rate of 5 per cent. provided (i) the Hong Kong tax resident is the beneficial owner of the dividend; (ii) the Hong Kong tax resident holds at least 25 per cent. of the equity of the Mainland China tax resident; and (iii) the relevant treaty conditions are satisfied. Due to the Trust's investment restriction, the Trust would not hold more than 10 per cent. of the ordinary shares issued by any single Mainland China issuer. In this connection, the Trust would not be able to enjoy the reduced WIT rate of 5 per cent. provided under the Mainland China-HK Arrangement.

On 22 November, 2018, the Ministry of Finance ("MOF") and SAT issued Caishui [2018] No.108 ("Circular 108"), which stipulated that foreign institutional investors are exempted from PRC WIT and Value Added Tax ("VAT") in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the PRC bond market.

## *Capital gains*

### *(i) Capital gains realised from trading of China B Shares and H Shares*

Under current Mainland China tax law, there are no specific rules or regulations governing the taxation of the disposal of these securities by foreign investors. Hence, the tax treatment for investment in China B Shares and H Shares is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Trust could be technically subject to 10 per cent. WIT on the Mainland China sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Having said that, for B Shares and H Shares invested by the Trust directly, there may be practical difficulty for the Mainland China tax authorities to impose and collect WIT on such capital gains. In practice, the 10 per cent. WIT has not been strictly enforced by the Mainland China tax authorities on capital gains derived by non-Mainland China tax resident enterprises from the trading of these securities with sales and purchase effected through stock exchanges.

Having consulted professional and independent tax adviser, the Manager has not made and currently has no intention to make provision in respect of WIT on gross realised and unrealised capital gains on trading of B Shares and H Shares. The Manager will monitor the situation and if, in the opinion of the Manager, a provision is warranted, the change will be implemented by the Manager and Unitholders will be notified of the change.

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(ii) *Capital gains realised from trading of China A Shares through Stock Connects*

Mainland China tax circulars Caishui [2014] No. 81 (“**Notice No. 81**”) and Caishui [2016] No. 127 (“**Notice No. 127**”) provide that PRC CIT will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Trust) on the trading of China A Shares through the Stock Connects. Based on Notice No. 81 and Notice No. 127, and having consulted professional and independent tax adviser, no WIT provision for gross realised or unrealised capital gains derived from trading of China A Shares via the Stock Connects is made by the Manager on behalf of the Trust.

It should be noted that the corporate income tax exemption under Notice No. 81 and Notice No. 127 is temporary. As such, as and when the Mainland China authorities announce the expiry date of the exemption, the Trust may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

(iii) *Capital gains realised through trading of China A Shares through CAAPs and A Shares CIS*

The Trust may from time to time obtain exposure to China A Shares by investing in CAAPs and A Shares CIS.

Pursuant to the “Notice on the temporary exemption of Corporate Income Tax on capital gains realised from the transfer of PRC equity investment assets such as PRC domestic stocks by QFII and RQFII” (Caishui [2014] No. 79) (“**Notice No. 79**”) promulgated by the MOF, the SAT and the CSRC on 14 November 2014 states that (a) PRC CIT will be imposed on capital gains realised by QFIIs and RQFIIs from the transfer of Mainland China equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws, and (b) QFIIs and RQFIIs (without an E&P in the Mainland China or having an establishment in the Mainland China but the income so derived in China is not effectively connected with such establishment) will be temporarily exempt from PRC CIT on gains realised from the transfer of Mainland China equity investment assets (including China A Shares) effective from 17 November 2014.

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The issuer of the CAAPs may implement hedge arrangements on the CAAPs through QFII/RQFII which would acquire or dispose of the underlying China A Shares to which the CAAPs are linked. As the QFIIs/RQFIIs are the legal owners of the China A Shares under Mainland China law with respect to such CAAPs, any Mainland China taxes arising from the QFIIs'/RQFIIs' investments in such securities would be legally borne by the QFII/RQFII directly. Given that any Mainland China tax liabilities accruing to the QFII/RQFII in respect of the securities to which the CAAPs are linked arise because of the trading activities of the Trust, such tax liabilities (if any) may ultimately be recharged to and borne by the Trust and would likely have an economic effect on the value of the Trust. On the basis of Notice No. 79, it is not expected that the issuers of any CAAP would make any provision for potential tax liabilities from 17 November 2014 onwards.

Pursuant to Notice No. 79 and having consulted professional and independent tax advisor, with effect from 17 November 2014, in respect of the Trust, the Manager will not make WIT provision for gross realised or unrealised capital gains derived from trading of China A Shares through CAAPs and A Shares CIS.

Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the Mainland China authorities announce the expiry date of the exemption, the Trust may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

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- (iv) *Capital gains realised from the trading of PRC debt securities issued or listed offshore by Mainland China issuers*

There are currently no specific tax rules or regulations governing the taxation of capital gains realised by foreign investors on the disposal of these securities. In the absence of specific rules, the general tax provisions under PRC CIT Law should apply and such general tax provisions stipulate that a non-resident enterprise with no place of effective management, establishment or place of business in the Mainland China would generally be subject to WIT at the rate of 10 per cent. on its Mainland China-sourced income, unless exempt or reduced under current Mainland China tax laws and regulations or relevant tax treaties. Based on the current interpretation of the SAT and the local Mainland China tax authorities, capital gains derived by foreign investors from investment in PRC debt securities should not be treated as Mainland China sourced income and thus should not be subject to PRC WIT. There are no written tax regulations issued by the Mainland China tax authorities to confirm that interpretation. However, as a matter of practice, such 10 per cent. PRC WIT on capital gains realised by non-Mainland China tax resident enterprises from the trading of PRC debt securities has not been strictly enforced by the Mainland China tax authorities.

Having consulted professional and independent tax adviser, the Manager will not make WIT provisions for the Trust on the gross realised and unrealised capital gains derived from PRC debt securities issued or listed offshore by Mainland China issuers. The implication of this is that if the Trust is liable to pay such withholding and other taxes, this may result in an unfavourable impact on the Net Asset Value of the Trust.

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(v) *Capital gains derived from funds that invest in PRC Securities*

The Trust may invest in funds that invest in PRC Securities. Such funds may or may not withhold WIT equal to 10 per cent. of any potential capital gains which may be payable on a sale of such PRC Securities. Any such withholding by a fund would be reflected in the net asset value of the relevant fund and, therefore, in the Net Asset Value of the Trust on any Valuation Day. Where an a fund has no such withholding or insufficient withholding, any retrospective enforcement and/or changes in Mainland China tax law relating to WIT on capital gains on the sale of PRC Securities may adversely affect the net asset value of the relevant fund and, therefore, the Net Asset Value of the Trust.

In this regard, any Mainland China tax liability may, if it arises, be payable by the Trusts that invest in PRC Securities. However, under the terms of the arrangement between the Trust and the funds that invest in PRC Securities, the fund may pass on any tax liability to the Trust. Such tax charges would likely be recharged to, and borne by, the Trust under contractual agreement with the fund. As such, the Trust is the ultimate party which bears the risks relating to any Mainland China taxes what are so levied by the relevant Mainland China tax authority.

(vi) *Tax provision*

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet any potential tax liability for capital gains or income, the Manager reserves the right to provide for WIT on such gains or income and withhold the tax for the account of the Trust.

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As such, if it transpires that the Trust is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of the Trust may be lowered, as the Trust will ultimately have to bear the full amount of tax liabilities. It should also be noted that the level of provision (if any) may be inadequate or excessive to meet actual Mainland China tax liabilities on investments made by the Trust. Consequently, Unitholders may be disadvantaged or advantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), investors should note that the Net Asset Value of the Trust may be adversely affected, as the Trust will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Trust, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the Trust. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

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.

## **VAT and other surtaxes**

The MOF and SAT issued the “Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program (“**B2V Pilot Program**”) (Caishui [2016] No. 36) (“**Notice No. 36**”) on 23 March 2016. The Notice No. 36 sets out that the B2V Pilot Program covers all the remaining industries of the program, including financial services. The Notice No. 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

The Notice No. 36 provides that VAT at 6 per cent. shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. China A Shares and RMB denominated debt securities issued by Mainland China issuers.

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Based on the prevailing VAT regulations, capital gains derived by (i) QFIIs / RQFIIs on trading of marketable securities and (ii) foreign investors via the Stock Connects are exempted from VAT. Therefore, to the extent the Trust's key investment (such as China A Shares through the Stock Connects, CAAPs) are conducted through these channels, either by the Trust directly or via CAAP Issuers, the capital gains should be exempted from VAT. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT.

The current VAT regulations do not provide VAT exemption on capital gains derived from trading of China B Shares. Having said that, the Mainland China tax authorities have not actively collected VAT from non-Mainland China tax resident enterprises on gains realized from China B Shares in practice. Where capital gains are derived from trading of H Shares, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside Mainland China.

The prevailing VAT regulations do not specifically exempt VAT on interest received by foreign investors (including QFIIs and RQFIIs). Interest income on non-government bonds (including corporate bonds) should technically be subject to 6 per cent. VAT.

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

Circular 108 stipulated that foreign institutional investors are exempted from PRC WIT and VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the PRC bond market.

In addition, urban maintenance and construction tax (currently at the rate ranging from 1 per cent. to 7 per cent.), educational surcharge (currently at the rate of 3 per cent.) and local educational surcharge (currently at the rate of 2 per cent.) are imposed based on the VAT liabilities. The applicable levies depend on the location where VAT filing (if required) is done.

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## **Stamp Duty**

Stamp Duty under the Mainland China 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 certain taxable documents executed or received in the Mainland China, including the contracts for the sale of China A Shares and China B Shares traded on the Mainland China's stock exchanges. In the case of contracts for sale of China A Shares and China B Shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1 per cent.

It is unclear whether PRC Stamp Duty that is imposed on the transfer of shares of Mainland China's companies under the PRC Stamp Duty Regulations would similarly apply to the acquisition and disposal of H Shares by non-Mainland China's investors outside the Mainland China. That said, PRC Stamp Duty is generally not imposed for trading of H Shares in practice.

No PRC Stamp Duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

Further, no PRC Stamp Duty is expected to be imposed on non-tax resident holders of fund units, either upon subscription or upon a subsequent redemption of such fund units.

## **General**

It should also be noted that the actual applicable tax rates imposed by the State Administration for Taxation ("SAT") may change from time to time. It should also be noted that the prevailing Mainland China's tax regulations specified that the tax exemption on capital gains derived from the trading of China A Shares from 17 November 2014 onwards is temporary. There is a possibility of the Mainland China's tax rules, regulations and practice being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final Mainland China's tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

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If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Trust may suffer more than the tax provision amount as the Trust will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Trust as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in the Trust before the return of any overprovision to the account of the Trust will not be entitled or have any right to claim any part of such overprovision.

Unitholders should seek their own tax advice on their tax position with regard to their investment in the Trust.

It is possible that the current tax laws, regulations and practice in the Mainland China will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated.

## 4.3 Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No. 3) Ordinance (the "**Ordinance**") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (commonly known as "**CRS**"). The CRS requires financial institutions ("**FIs**") in Hong Kong to collect information relating to account holders, and file such information as it relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("**IRD**") who in turn will exchange the information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("**Reportable Jurisdictions**"); however, the Trust and/or its agents may further collect information relating to residents of other jurisdictions.

The Trust is required to comply with the requirements of the Ordinance, which means that the Trust and/or its agents shall collect and provide to the IRD the required information relating to Unitholders and prospective investors.

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The Ordinance as implemented by Hong Kong requires the Trust to, amongst other things: (i) register the Trust's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e., Unitholders) to identify whether any such accounts are considered "Reportable Accounts" under the Ordinance; and (iii) report to the IRD the required information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the required information reported to it to the government authorities of the relevant Reportable Jurisdiction(s). Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in a Reportable Jurisdiction. Under the Ordinance, details of Unitholders, including but not limited to their name, place of birth, address, jurisdiction of tax residence, tax identification number (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

By investing in the Trust and/or continuing to invest in the Trust, Unitholders acknowledge that they may be required to provide additional information to the Trust, the Manager and/or the Trust's agents in order for the Trust to comply with the Ordinance. The Unitholder's information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

Each Unitholder and prospective investor should consult its own professional advisor(s) on the administrative and substantive implications of AEOI on its current or proposed investment in the Trust.

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## 5. FEES AND EXPENSES

### 5.1 Preliminary and Redemption Charges

A Preliminary Charge of up to 5.0 per cent. of the Issue Price of Units of the relevant Class of the Trust may be made by the Manager on issue of Units of the relevant Class subscribed for and retained for its own use and benefit.

A Redemption Charge of up to 5.0 per cent. of the Redemption Price of Units of the relevant Class of the Trust may also be made by the Manager on redemption of Units and retained for its own use and benefit.

Currently the Manager has waived the Redemption Charge applicable to the redemption of Units of the relevant Class. However, the Manager may re-introduce a Redemption Charge in respect of a Class of Units at any time up to the permitted maximum of 5.0 per cent. with one month's prior written notice (or such shorter notice period as approved by the SFC) to Unitholders.

For the purposes of calculating the amount of Redemption Charge in respect of a Class of Units, if any, payable by a redeeming Unitholder redeeming all or some of his Units of such Class, (a) a Unitholder effecting a partial redemption of Units will be deemed to be redeeming those Units subscribed for earlier in time prior to redeeming Units which were subsequently subscribed for; and (b) where a Unitholder is redeeming Units which had been transferred to him, the relevant date to determine any such charge will be the date of transfer, and not of subscription, of such Units.

### 5.2 Trustee and Registrar Fees

The Trustee is entitled to receive a Trustee fee out of the assets of the Trust calculated as a percentage of the Net Asset Value as at each Valuation Day. The current rates of the Trustee fee are as follows:

- 0.17 per cent. per annum on the first US\$400 million of the Net Asset Value of the Trust;
- 0.15 per cent. per annum on the next US\$400 million of the Net Asset Value of the Trust; and
- 0.13 per cent. per annum of the Net Asset Value of the Trust in excess of US\$800 million.

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The Trustee fee may be increased up to a permitted maximum of 1.0 per cent. per annum of the Net Asset Value of the Trust on giving the Manager and the Unitholders one month's prior written notice (or such shorter notice period as approved by the SFC). The Trustee fee accrues daily and is calculated as at each Valuation Day and payable monthly in arrears, out of the Trust, provided that the aggregate Trustee fee payable to the Trustee for any month shall be no less than US\$4,000.

The Trustee is also entitled to be paid out of the Trust a fixed annual fee of US\$3,000 payable quarterly in arrears, as well as transaction fees and distribution handling fee at such rates within the Trustee's usual range of fees for similar transactions as agreed on a commercial arm's length basis with the Manager from time to time.

All other fees of co-custodians and/or sub-custodians will be paid out of the Trust at such commercial rates prevailing in the relevant market as may be agreed by the relevant sub-custodian and the Trustee and/or its custodian at the relevant time when such future appointment(s), if any, are made. The fees of the Registrar will be paid by the Trustee.

## **5.3 Management Fee**

The Manager is entitled to receive a management fee of up to 2.0 per cent. per annum of the Net Asset Value of the relevant Class of Units of the Trust and may also be entitled (under certain circumstances) to a performance fee as set out below.

The current management fee of each Class is set out under section 3.1 "Summary of Features" of this Explanatory Memorandum. This fee accrues daily and will be calculated based on the Net Asset Value of the relevant Class as at each Valuation Day and is payable monthly in arrears out of the Trust. The management fee payable may be increased up to a maximum of 2.0 per cent. per annum of the Net Asset Value of the relevant Class by the Manager giving not less than one month's prior written notice (or such shorter notice period as approved by the SFC) of such proposed increase to the Trustee and the Unitholders.

The Manager may appoint investment delegates and investment advisers, on terms and conditions determined by the Manager and subject to the prior approval of the SFC, to provide sub-investment management services or investment advice in respect of all or part of the Trust. The Manager will be responsible for the fees of such appointed persons.

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## 5.4 Performance Fee

The Manager is also entitled to receive in respect of each Class a performance fee.

### *Performance fee calculation*

Performance fee is payable annually, calculated on a high-on-high basis (i.e. when the Net Asset Value per Unit as at the last Valuation Day of a performance period exceeds the High Water Mark (as defined below)) in accordance with the following formula:

$$(A-B) \times C \times D$$

Where:

“A” is the Net Asset Value per Unit of a particular Class as at the Performance Fee Valuation Day which is the last Valuation Day of each calendar year (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of the relevant performance period(s) since the last performance fee is crystallised and paid).

“B” is the **High Water Mark**, which is the higher of:

- (a) the Net Asset Value per Unit of that Class on the date of the initial issue of Units; and
- (b) the Net Asset Value per Unit of that Class as at the Performance Fee Valuation Day of the preceding performance period in respect of which a performance fee was last paid to the Manager for that Class (after deduction of all fees including any performance fee and any distribution declared or paid in respect of that preceding performance period).

Where a performance fee is payable for a performance period, the Net Asset Value per Unit of a particular Class (after deduction of performance fee and any distribution declared or paid in respect of that preceding performance period) on the Performance Fee Valuation Day will be set as the High Water Mark for the next performance period.

“(A-B)” means the outperformance of Net Asset Value per Unit, i.e. the amount by which the increase in Net Asset Value per Unit during the relevant performance period exceeds the High Water Mark.

“C” is the rate of performance fee payable (i.e. 15 per cent.).

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“D” is the average number of Units in issue in the relevant performance period, calculated by adding the total number of Units in issue as at the valuation point on each Valuation Day of the relevant performance period divided by the total number of Valuation Days in such performance period.

Each performance period corresponds to the financial year of the Trust.

Any performance fee payable shall be paid as soon as practicable after the end of the relevant performance period.

## *Performance fee accrual*

The performance fee shall be accrued on each Valuation Day throughout the relevant performance period. The accrual is made based on the Net Asset Value per Unit on each Valuation Day. If it exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. On each Valuation Day, the accrual made on the previous Valuation Day will be reversed and a new performance fee accrual will be calculated and made in accordance with the above. If the Net Asset Value per Unit on a Valuation Day is lower than or equal to the High Water Mark, all provision on previously accrued performance fee will be reversed and no performance fee will be accrued.

For Units subscribing or redeeming during the relevant performance period, they will be based on the Net Asset Value per Unit (after accrual of performance fee as calculated in accordance with the above) and there is no adjustment. Depending upon the performance of the Trust during the year, the price at which Unitholders subscribe for or redeem Units at different times will be affected by performance of the Trust and this could have a positive or negative effect on the performance fee borne by them.

There is no equalisation arrangement in respect of the calculation of the performance fees. That means, there is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis based on the timing the relevant Unitholder subscribes or redeems the relevant Units during the course of a performance period. The Unitholder may be advantaged or disadvantaged as a result of this method of calculating the performance fee.

A charge of performance fee may have been borne by a Unitholder notwithstanding the Unitholder concerned may have suffered a loss in investment in the Units. On the other hand, a Unitholder may not be subject to any performance fee notwithstanding the Unitholder concerned may have realised a gain in investment in the Units.

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For instance, a Unitholder will be advantaged if he subscribes to the Trust during a performance period when the Net Asset Value per Unit is below the High Water Mark, and redeems prior to or at the end of such performance period when the Net Asset Value per Unit has increased up to but does not exceed the High Water Mark at the time of his redemption, and thus, no performance fee is payable even though he has made a profit.

Likewise, a Unitholder will be disadvantaged if he subscribes to the Trust during a performance period when the Net Asset Value per Unit is above the High Water Mark, and redeems prior to or at the end of such performance period when the Net Asset Value per Unit at the time of redemption has decreased but remains above High Water Mark. Under such circumstances, he has paid the performance fee despite of a loss.

The Manager may, in its absolute discretion, waive or reduce, or share with or rebate to any person(s) including those by or through whom the Units are offered for subscription, the payment of all or any portion of the Preliminary Charge and/or Redemption Charge in respect of the relevant Class of Units received by the Manager for its own use and benefit, and may share with or rebate to any person(s) including those by or through whom the Units are offered for subscription, the payment of all or any portion of the management fee and/or performance fee in respect of the relevant Class of Units received by the Manager for its own use and benefit subject to applicable regulation. Such persons may retain such charges for their own use and benefit by agreement between the Manager and such persons.

## *Illustrative examples*

The examples below are shown for illustration purposes only and may contain simplifications.

### *Assumptions:*

- The initial Issue Price for the relevant Unit is US\$10.
- The performance fee payable is 15 per cent. of the increase in the Net Asset Value per Unit during a performance period above the High Water Mark (i.e. outperformance of Net Asset Value per Unit).
  - (I) First performance period (Net Asset Value per Unit above High Water Mark at the end of performance period – performance fee payable):

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Investor A subscribes for one Unit during the initial offer period at the initial Issue Price. Thereafter, investor B subscribes for one Unit mid-way through the first performance period at an Issue Price of US\$12. High Water Mark is the initial Issue Price, which is US\$10.

By the end of the first performance period, the Net Asset Value per Unit (before deducting performance fee accrual) is US\$11. The outperformance of Net Asset Value per Unit is thus US\$1. The average number of Units in issue on this Valuation Day is 1.5 Units.

The total performance fee payable by the Trust would be calculated as:  
 $(US\$11 - US\$10) \times 15 \text{ per cent.} \times 1.5 \text{ Units} = US\$0.23.$

At the end of the first performance period, the Net Asset Value per Unit will be reduced by US\$0.12 (i.e.  $US\$0.23 / 2 \text{ Units}$ ). In effect, each of Investors A and B will have borne the US\$0.12 performance fee in respect of the first performance period.

- (II) Second performance period (Net Asset Value per Unit below High Water Mark on a particular Valuation Day – no performance fee accrual; Net Asset Value below High Water Mark at the end of performance period – no performance fee payable):

At the start of the second performance period, the High Water Mark is US\$10.88 (being the Net Asset Value per Unit at the end of the last performance period in respect of which a performance fee was paid (after deduction of performance fee)).

Mid-way through the second performance period, the Net Asset Value per Unit is US\$9.85. Investor A redeems his Unit. Investor C subscribes for one Unit. On this Valuation Day, the Net Asset Value per Unit is below the High Water Mark. Therefore, no performance fee is accrued in respect of the Unit redeemed by Investor A.

At the end of the second performance period, the Net Asset Value per Unit becomes US\$10.50. No performance fee is payable in the second performance period as the Net Asset Value per Unit at the end of performance period is below the High Water Mark. Although Investor C had a gain in this period, no performance fee is charged.

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## 5.5 Other Expenses

The Trust will not be responsible for any advertising or promotional expenses of the Trust nor 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 Units.

The Trust will bear all costs and expenses relating to the Trust including but not limited to stamp and other duties, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges and other costs and expenses payable in respect of the acquisition, holding and realisation of any investment or any monies, deposit or loan, other transaction-related expenses, charges and expenses of its legal counsel and auditors, any disbursements or out-of-pocket expenses properly incurred on behalf of the Trust by any of its service providers, the expenses incurred in convening and holding meetings of Unitholders, printing and distributing annual and half-yearly reports, accounts and other circulars relating to the Trust and the expenses of publishing Unit prices, the costs incurred in the preparation, printing and updating of any offering document, the costs incurred in the preparation of supplemental deeds, the costs charged by the Trustee in terminating the Trust and all other costs, charges and expenses properly incurred in the administration and investment activities of the Trust following the termination of the Trust.

The preliminary costs of the Trust have been fully amortised.

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## 6. GENERAL INFORMATION

### 6.1 Distribution Policy

The Manager may, in accordance with the Trust Deed, determine to make a distribution out of income and/or capital (including unrealised capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years) of the Trust to Unitholders. Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of an investor's original investment or from any capital gains attributable to the original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit in the relevant Class of the Trust.

The Manager may make distribution at its discretion for Class A1 Units of the Trust. The Manager will review the amount for dividend distribution once a year before determining whether dividends will be made. There is no guarantee that dividends will be made once a year. The last dividend payout date was 21 November 2005. In respect of Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis HKD Hedged Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units, Class A2 MDis NZD Hedged Units, Class A2 MDis SGD Hedged Units, Class A2 MDis RMB Unhedged Units, Class A2 MDis RMB Hedged Units, Class A2 MDis JPY Hedged Units and Class X MDis USD Unhedged Units, the Manager currently intends to make monthly dividends distribution to Unitholders at its discretion.

In respect of Class A Acc HKD Hedged Units, Class A Acc SGD Hedged Units, Class A Acc RMB Unhedged Units, Class A Acc RMB Hedged Units, Class A Acc JPY Hedged Units, Class X Acc USD Unhedged Units and Class Z Units, the Manager currently does not intend to pay dividends to Unitholders. Therefore, any net income and net realized profits attributable to the Class A Acc HKD Hedged Units, Class A Acc SGD Hedged Units, Class A Acc RMB Unhedged Units, Class A Acc RMB Hedged Units, Class A Acc JPY Hedged Units, Class X Acc USD Unhedged Units and Class Z Units will be reinvested and reflected in their respective Net Asset Values.

Dividends will generally be paid in the Class Currency of the relevant Class of Units. With the prior consent of the Manager, arrangements can be made for dividends to be paid in any major currency other than the Class Currency of the relevant Class of Units. Any bank charges incurred from payment will be for the account of the investor. The cost of any currency conversion and other related administrative expenses will also be borne by the investor.

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In respect of Class A2 MDis RMB Unhedged Units and Class A2 MDis RMB Hedged Units, dividends will also be paid in RMB under normal circumstances. However, where the Trust is not able to get sufficient amounts of RMB under extreme market conditions for payment of dividends in RMB, the Manager may pay dividends in USD or delay the payment of redemption moneys. For further details relating to the associated risks, please refer to the risk factor titled “Risks associated with RMB Classes of Units” under the “Risk Factors” section.

Conversion of currencies may involve some delay. None of the Trustee, the Manager, the administrator, the custodian or the Registrar will be liable to any Unitholder for any loss suffered by such Unitholder arising from the said currency conversion.

However, the Manager may consider not making distributions in any financial year, in its absolute discretion, taking into account factors such as fund size, fund history, income for the year, capital growth, administration costs, etc. Where distributions are made, the amount available for distribution in respect of each financial year will be determined and declared at such date(s) the Manager may, with the prior consent of the Trustee, determine. Following declaration, the relevant distribution shall be paid on a Valuation Day as soon as practicable after the date on which the distribution is declared (“**Distribution Date**”) to persons who were Unitholders on the Valuation Day immediately preceding the date on which the distribution is declared.

In respect of Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis HKD Hedged Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units, Class A2 MDis NZD Hedged Units, Class A2 MDis SGD Hedged Units, Class A2 MDis RMB Unhedged Units, Class A2 MDis RMB Hedged Units, Class A2 MDis JPY Hedged Units and Class X MDis USD Unhedged Units, unless Unitholders have indicated otherwise to the Manager on the subscription of Units of the relevant Class, any distributions payable will automatically be reinvested in the subscription of further Units of such Class of the Trust on the Distribution Date at the prevailing Issue Price of such Class applicable on the Distribution Date. The Manager may determine to make no distributions or make fewer distributions in a financial year at its absolute discretion.

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In respect of Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis HKD Hedged Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units, Class A2 MDis NZD Hedged Units, Class A2 MDis SGD Hedged Units, Class A2 MDis RMB Unhedged Units, Class A2 MDis RMB Hedged Units, Class A2 MDis JPY Hedged Units and Class X MDis USD Unhedged Units, Unitholders may specify on subscription that they wish to receive a cash distribution if a distribution is declared by the Manager. Provided, however, that distributions will not be paid in cash if the amount of the distribution for the relevant Unitholder amounts to less than US\$100 (or its equivalent in HKD, AUD, CAD, GBP, NZD, SGD, RMB or JPY as the case may be) or such other amount determined by the Manager from time to time. If Unitholders do not request cash distributions or if the amount of the distribution payable to the relevant Unitholder is less than the minimum amount specified as aforesaid, the distribution to which the Unitholder is entitled will be reinvested in further Units to be issued at the prevailing Issue Price of the relevant Class applicable on the Distribution Date.

In the event that the net distributable income attributable to Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis HKD Hedged Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units, Class A2 MDis NZD Hedged Units, Class A2 MDis SGD Hedged Units, Class A2 MDis RMB Unhedged Units, Class A2 MDis RMB Hedged Units, Class A2 MDis JPY Hedged Units and Class X MDis USD Unhedged Units, during the relevant period is insufficient to pay dividends as declared, the Manager may in its discretion determine such dividends be paid from capital (including unrealized capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years). Payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment.

Any distributions involving payment of dividends out of the Trust's capital may result in an immediate reduction in the Net Asset Value per Unit of the relevant Classes, and will reduce any capital appreciation for the Unitholders of the relevant Classes. Any such payments out of capital will only be made to seek to maintain, so far as is reasonable, a stable payment per Unit of the relevant Class but the payment per Unit of the relevant Class is not fixed or guaranteed and will vary according to economic and other circumstances and the ability of the Trust to support stable monthly payments without a long-term negative impact on capital.

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Under the current distribution policy, the level of dividend does not necessarily indicate the total return of the Trust. In order to assess the total return of the Trust, both the Net Asset Value movement (including dividend) and the dividend distribution should be considered. The Net Asset Value of relevant Classes will be adjusted by such amount of dividend on the ex-date.

Where dividends comprise amounts from both income and capital, the composition of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the last 12 months is available by the Manager on request and also on the Manager's website [www.valuepartners-group.com](http://www.valuepartners-group.com)\*.

The Manager may amend the distribution policy subject to obtaining the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

## 6.2 Trust Deed

The Trust was constituted by the Original Deed. Pursuant to the First Deed of Retirement, the Trust changed its domicile from the Cayman Islands to Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of Bank of Bermuda (Cayman) Limited with effect from 22 April 2016. Pursuant to the Second Deed of Retirement, Value Partners Hong Kong Limited was appointed as manager in place of Value Partners Limited with effect from 22 April 2016. The Original Deed was amended and restated by the Supplemental Deed. Unitholders and prospective investors are advised to review the terms of the Trust Deed which govern their investment in the Trust. Please refer to section 6.9 of this Explanatory Memorandum for details on how you can inspect or purchase a copy of the Trust Deed from the Manager.

## 6.3 Financial Report and Statements

The financial year end of the Trust is 31 December in each year. Annual reports of the Trust, prepared according to International Financial Reporting Standards (save that the establishment costs of the Trust may be amortised), will normally be sent to Unitholders within four months of the financial year-end. The Manager will also prepare unaudited interim financial reports for the first six calendar months ending on 30 June in each financial year, to be sent to Unitholders within two months after the end of such period. The English and Chinese reports provide details of the assets of the Trust and the Manager's statement on transactions during the period under review and will be posted on the Manager's website, <http://www.valuepartners-group.com>\*.

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\* *This website has not been reviewed or authorised by the SFC.*

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At the end of each calendar month, each Unitholder will be sent an account statement containing details of his transactions during the relevant period and the market value of his Units.

## **6.4 Duration and Termination of the Trust**

Unless terminated earlier as provided in the Trust Deed, the Trust will continue until the date falling 80 years from the date of its establishment (i.e. 7 August 2002 to 6 August 2082).

The Trust may be terminated by the Trustee if any of the following events shall occur, namely:

- (a) 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 a receiver is appointed over any of its assets and is not discharged within 60 days; or
- (b) in the opinion of the Trustee, the Manager has failed to perform or is incapable of performing its duties under the Trust Deed satisfactorily or the Manager has done such thing which, in the opinion of the Trustee, is calculated to bring the Trust into disrepute or is harmful to the interests of the Unitholders; or
- (c) any law is passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust; or
- (d) the Trustee is unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal of the Manager; or
- (e) the Trustee has decided to retire but within 30 days of the Trustee giving notice to the Manager of its desire to retire the Manager is unable to find a suitable person who is willing to act as trustee.

The Trust may be terminated by the Manager in its absolute discretion by three months' notice in writing to the Trustee and three months' written notice in writing to Unitholders if:

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- (a) after 5 years from the date of the Trust Deed, the aggregate Net Asset Value of all the Units outstanding is less than US\$2,500,000; or
- (b) any law is passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Trust.

The Trust may be terminated at any time in the event that an Extraordinary Resolution to that effect is passed at a duly convened meeting of Unitholders.

Any unclaimed proceeds or other monies held by the Trustee may at the expiration of twelve months from the date upon which the same became payable be paid into court subject to the right of the Trustee to deduct from such unclaimed proceeds any expenses it may incur in making such payment.

## 6.5 Conflicts of Interest

The Manager, the investment delegates (if any), the Trustee and their respective Connected Persons may, from time to time, act as manager, investment delegate, trustee or successor trustee or investment adviser, representative or such other capacity in connection with any collective investment scheme separate and distinct from the Trust and retain any profit or benefit made in connection therewith.

In addition:

- (a) The Manager or any Connected Person may purchase and sell investments for the account of the Trust as agent for the Trustee.
- (b) The Trustee, the Manager and any of their Connected Persons may contract with or enter into any financial, banking or other transaction with one another or with any Unitholder of the Trust or any company or body any of whose shares or securities form part of the Trust or may be interested in any such contract or transaction.
- (c) The Trustee or the Manager 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.
- (d) The Trustee, the Manager and any of their Connected Persons may buy, hold and deal in any securities, commodities or other property for their own account or for the account of their other customers notwithstanding that similar securities, commodities or other property may be held as part of the Trust.

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- (e) If cash forming part of the Trust's assets is deposited with the Trustee, the Manager, any investment delegate or any of their respective Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the Trust, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business.
- (f) Any arrangements for the borrowing of any monies for the account of the Trust may be made with any of the Trustee, the Manager, any investment delegate or any Connected Person of any of them being a banker or other financial institution provided that such person shall charge interest at no higher rate and any fee for arranging or terminating the loan is of no greater amount than is in accordance with its normal banking practice, the commercial rate for a loan of a similar size, nature and duration, in the same currency and with institutions of similar standing negotiated at arm's length.
- (g) Subject to restrictions and requirements applicable from time to time, the Manager or any of its Connected Persons may enter into investments for the Trust as agent for the Trust and may deal with the Trust as principal provided that, in both cases, dealings are carried out in good faith and effected on best available terms negotiated on an arm's length basis and in the best interests of the Unitholders of the Trust. Any transactions between the Trust and the Manager, investment delegate as may be appointed by the Manager or any of their Connected Persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Trust's annual report.
- (h) In transacting with brokers or dealers connected to the Manager, any investment delegate, the Trustee or any of their Connected Person, the Manager must ensure that:
  - (i) such transactions are on an arm's length terms;
  - (ii) the Manager has used due care in the selection of such persons and has ensured that they are suitably qualified in the circumstances;
  - (iii) transaction execution is consistent with applicable best execution standards;

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- (iv) the fee or commission paid to any such persons in respect of a transaction is not greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
  - (v) the Manager must monitor such transactions to ensure compliance with its obligations; and
  - (vi) the nature of such transactions and the total commissions and other quantifiable benefits received by such persons shall be disclosed in the Trust's annual reports.
- (i) Neither the Trustee nor the Manager nor their respective Connected Persons shall be liable to account to each other or to the Trust or to the Unitholders for any profits or benefits made or derived from or in connection with any such transaction mentioned above.

It is, therefore, possible that any of the Trustee, the Manager, the investment delegates (if any) or their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Trust. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Trust on normal commercial terms. If such conflicts arise, each of the Trustee and the Manager will at all times, act in accordance with the terms of the Trust Deed and have regard in such event to its obligations to the Trust and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Trust and any of them are on an arm's length basis.

For the purposes of this Explanatory Memorandum, "**Connected Persons**" shall have the meaning defined in the Trust Deed and the Code on Unit Trusts and Mutual Funds issued by the SFC and include any subsidiary or holding company or associate of the Manager or the Trustee, or subsidiary of such holding company as the case may be.

Where the Manager invests in shares or units of a collective investment scheme managed by the Manager, the investment delegates (if any), or any of their respective Connected Persons, the manager of the scheme in which the investment is being made must waive any initial charge and redemption charges which it is entitled to charge for its own account in relation to the acquisition or redemption (as the case may be) of shares or units and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any Connected Person) borne by the Trust.

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None of the Manager, the investment delegates (if any) or any of their respective Connected Persons shall retain any cash or rebates or other payment or benefit (except as otherwise provided for in this Explanatory Memorandum or in the Trust Deed) received from a third party (either directly or indirectly) in consideration of directing transactions in the Trust's assets to such persons, and any such rebates or payments or benefits which are received shall be credited to the account of the Trust.

Subject to paragraphs (h)(i) - (vi) above, the Manager, the investment delegates (if any) and/or any of their Connected Persons reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the investment delegates (if any) and/or any of their Connected Persons has an arrangement under which that broker or dealer with from time to time provide to or procure for the Manager, the investment delegates (if any) and/or any of their Connected Persons goods or services for which no direct payment is made but instead the Manager, the investment delegates (if any) and/or any of their Connected Persons undertakes to place business with that broker or dealer. The Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders of the Trust (taken as a body and in their capacity as such) whether by assisting the Manager and/or the investment delegate (if any) in their ability to manage the Trust or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Trust in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegates (if any), including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include 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 publications. 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.

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The services of the Trustee and its Connected Persons provided to the Trust are not deemed to be exclusive and each of them shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other monies payable in respect of any of the arrangements described above and the Trustee and its Connected Persons shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Unitholder or any other relevant party any fact or thing which comes to its notice in the course of it rendering similar services to other parties 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 or as required by any applicable laws and regulations for the time being in force. None of the Trustee and its Connected Persons shall be liable to account to the Trust or any investor of the Trust for any profit or benefit made or derived thereby or in connection therewith (including in situations set out above).

The Manager may enter into trades for the account of the Trust with the accounts of other clients of the Manager or its Connected Persons (including other collective investment schemes managed by the Manager or its Connected Persons) (“**cross trades**”). Such cross trades will only be undertaken where the sale and purchase decisions are in the best interests of both clients and fall within the investment objectives, restrictions and policies of both clients, the cross trades are executed on arm’s length terms at current market value, and the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. accounts owned by the Manager or any of its Connected Persons over which it can exercise control and influence) and client accounts in accordance with applicable laws and regulations.

## **6.6 Restrictions on Unitholders**

The Manager has power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units in the Trust are acquired or held by a non-qualified person. A non-qualified person includes:–

- (a) a US Person (as defined in the Trust Deed), unless accepted by the Manager; or
- (b) any individual under the age of 18; or
- (c) any person whose holding of Units would be a breach of the law or requirements of any jurisdiction or governmental authority in circumstances which, in the Manager’s opinion, might result in the Trust suffering any adverse effect which the Trust might not otherwise have suffered; or

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- (d) any person or persons, in circumstances which, in the Manager's opinion, may result in the Trust incurring any tax liability or suffering any other pecuniary disadvantage which the Trust might not otherwise have incurred or suffered; or
- (e) such other non-qualified persons as determined by the Manager from time to time.

If it comes to the notice of the Manager that any Units are so held by such a person, the Manager may give notice to such person requiring the redemption or transfer of such Units in accordance with the provisions of the Trust Deed. A person who becomes aware that he is holding or owning Units in breach of any such restriction is required either to deliver to the Trust a written request for redemption of his Units in accordance with the Trust Deed or to transfer his Units to a person who would not thereby be a non-qualified person. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30-day period to have given a request in writing for the redemption of all such units.

## 6.7 Voting Rights

Meetings of all Unitholders or Unitholders of a particular Class may be convened by the Manager or the Trustee. The Manager must convene a meeting of Unitholders of a particular Class if the Unitholders of one-tenth or more in value of the Units in issue in that Class require such a meeting to be convened, or a meeting of all Unitholders if the Unitholders of one-tenth or more in value of all Units in issue require such a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The quorum for the transaction of business, except for the purpose of passing an Extraordinary Resolution, will be:

- (a) in the case of a meeting of Unitholders of a particular Class, Unitholders present in person or by proxy registered as holding not less than 10 per cent. of the Units in that Class for the time being in issue; and
- (b) in the case of a meeting of all Unitholders, Unitholders present in person or by proxy registered as holding not less than 10 per cent. of all Units for the time being in issue.

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The quorum for passing an Extraordinary Resolution will be Unitholders present in person or by proxy registered as holding not less than 25 per cent. of the Units for the time being in issue in a particular Class or (as the case may be) of all Units for the time being in issue.

Meetings of Unitholders may be used to modify the terms of the Trust Deed, including to increase the maximum fees payable to the service providers, to remove the Trustee or to terminate the Trust at any time. Such amendments to the Trust Deed must be considered by Unitholders holding at least 25 per cent. of the Units in issue of each Class affected by such amendment, or where Unitholders of all Classes will be affected, by Unitholders holding at least 25 per cent. of all Units in issue, and passed by way of an Extraordinary Resolution where there is a 75 per cent. majority of the votes cast.

Unless a poll is demanded by the Chairman or one or more Unitholders present in person or by proxy registered as holding 5.0 per cent. of:

- (a) in the case of a meeting of Unitholders of a particular Class, the Units in that Class for the time being in issue; or
- (b) in the case of a meeting of Unitholders of all Classes, all Units for the time being in issue,

voting at a meeting shall be decided on a show of hands. In the case of joint Unitholders, the senior of those who tenders a vote (in person or by proxy) will be accepted to the exclusion of the other joint Unitholders and seniority is determined by the order in which the names appear on the register of Unitholders.

Voting at meetings of Unitholders shall be conducted in accordance with the relevant provisions of the Code and in particular so that votes shall be proportionate to the number of Units held.

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## **6.8 Anti-Money Laundering Regulations**

### **Hong Kong**

The Trust, the Trustee, the Manager, the administrator, the custodian, the Registrar, their agents, affiliates, subsidiaries or associates (as the case may be) will also require verification of identity and the source of funds according to Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Cap. 615 (“AMLO”), the SFC’s Guideline on Anti-Money Laundering and Counter-Terrorist Financing (as amended) and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities (as amended).

In Hong Kong, there are also obligations to report suspicious transactions to the Joint Financial Intelligence Unit jointly run by staff of the Hong Kong Police Force and the Hong Kong Customs & Excise Department under the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organised and Serious Crimes Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance. Reporting of suspicious transactions by the Trustee, the Manager, the administrator, the custodian, the Registrar, their agents, affiliates, subsidiaries or associates (as the case may be) shall not be communicated with the Unitholder, as such action may constitute an offence in Hong Kong.

## **6.9 Material Agreements**

Copies of the Trust Deed are available for inspection at the office of the Manager during normal business hours free of charge and copies may be purchased at a reasonable charge.

Once published, copies of the annual financial reports and semi-annual financial reports of the Trust will also be available for inspection at the office of the Manager during normal business hours.

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

## 6.10 Certification for Compliance with FATCA or Other Applicable Laws

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust (A) to avoid withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Trust receives payments and/or (B) to satisfy due diligence, reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction, (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any registration, due diligence and reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including but not limited to any law, rule and requirement relating to AEOI), including such obligations that may be imposed by future legislation.

For the purposes herein, “AEOI” means one or more of the following as the context requires:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standards and any associated guidance;
- (c) any intergovernmental agreement, treaty, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in paragraphs (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding paragraphs (a) to (c) above.

# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

## 6.11 Power to Disclose Information to Authorities

Subject to applicable laws and regulations in Hong Kong, the Trustee or the Manager or any of their authorised person (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the U.S. IRS and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, jurisdiction of birth, tax residence, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, account balance/value, and income or sale or redemption proceeds, to enable the Trust to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

## 6.12 Market Timing

The Manager does not authorise practices connected to market timing or related excessive, short-term trading practices deployed by any investors and it reserves the right to reject any applications for subscriptions or switching of Units from any investor engaging in such practices or which it suspects to use such practices and take such further measures or actions, as it, in its discretion deems appropriate or necessary to protect the Unitholders of the Trust.

Market timing is to be understood as an arbitrage method through which a Unitholder systematically subscribes, redeems or switches Units within a short time period, by taking advantage of time differences and/or imperfections or deficiencies in the method of determination of the Net Asset Value of the Trust.

## 6.13 Personal Data

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong, “**PDPO**”), the Trustee, the Manager, or any of their respective delegates (each a “**Data User**”) may collect, hold, use personal data of individual investors in the Trust only for the purposes for which such data was collected and shall comply with personal data protection principles and requirements as set out in the PDPO and any applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorized or accidental access, processing, erasure or other use.

# VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

## 7. PROCEDURE FOR APPLICATION

### 7.1 Method of Application

Initial applications for subscription of Units of the relevant Class must be made on the Subscription Form which accompanies this Explanatory Memorandum (also available from the Manager). Subsequent applications for subscription of Units of the relevant Class must be made on the Subsequent Subscription Form available from the Manager. Applications should be sent by post or by fax to the administrator at the business address or fax number set out in the Subscription Form. The Manager may also, in its discretion, allow any application for subscription to be made by other written or electronic forms. Please refer to section 3.7 of this Explanatory Memorandum for details relating to subscriptions made by fax or electronic instructions.

**The Manager reserves the right to reject any application in whole or in part in which case the subscription monies will be returned (without interest) by cheque or telegraphic transfer at the cost and risk of the investor.**

### 7.2 Payment Procedure

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on the regulated activity of dealing in securities under Part V of the Hong Kong Securities and Futures Ordinance. Third party cheques and cash are not accepted.

Units will not usually be issued unless and until the signed application for subscription or switching of Units in the relevant Class has been received (whether by fax, post or other written or electronic forms specified by the Manager), and subscription monies have been received in full in cleared funds by or on behalf of the Trustee, in which case the relevant Units will be issued by reference to the Issue Price of Units of that Class determined as at the close of the Dealing Period during which monies are actually received.

Payment will normally be made in the Class Currency of the relevant Class of Units as set out in section 7.2 of this Explanatory Memorandum unless the applicant has made arrangements with the Manager to make payment in some other currency. Payment details are set out in the Subscription Form.

## VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND

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

Payment in other freely convertible currencies other than the Class Currency may be accepted subject to the prior consent of the Trustee and/or the Manager. If such applications in other freely convertible currencies are accepted, the number of Units to be issued in such circumstances will be determined by the Manager calculating the equivalent of the subscription amount in the Class Currency at an exchange rate which the Manager deems appropriate and after deducting the cost of foreign exchange. Any bank charges incurred from payment will be for the account of the investor. The cost of any currency conversion and other related administrative expenses will also be borne by the investor. Conversion of currencies may involve some delay. None of the Trustee, the Manager, the administrator, the custodian or the Registrar will be liable to any Unitholder for any loss suffered by such Unitholder arising from the said currency conversion.

The Manager may, however, exercise its discretion to accept late payment of subscription monies, provisionally allot Units by reference to the Issue Price of Units of the relevant Class at the close of the relevant Dealing Period and charge interest for the benefit of the Trust on such overdue monies until payment is received in full, at such rate as the Manager thinks appropriate. However, if payment of subscription monies is not received within such period as determined by the Manager (which shall not be more than 3 Business Days after the close of the relevant Dealing Period), the Manager may, or the Trustee may require the Manager to, cancel such issue of Units of the relevant Class. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim in respect thereof against the Manager or the Trustee. The Manager shall be entitled to claim from the applicant and retain for its own account a cancellation fee of up to HK\$500, representing any administrative, foreign exchange or other costs involved in processing and cancelling such application.

Units issued by the Trust will be held for investors in registered form. Certificates will not be issued. A contract note will normally be issued by the administrator as soon as practicable after the relevant Valuation Day upon acceptance of an application for subscription or switching and will be forwarded by ordinary post (at the risk of the person(s) entitled to such contract note).

**Value Partners Hong Kong Limited**

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**VALUE PARTNERS HIGH-DIVIDEND STOCKS FUND (the “TRUST”)**

**FIRST ADDENDUM**

**Important**

*If you are in doubt about the contents of this Addendum, you should seek independent professional advice. This Addendum supplements, forms part of and should be read in conjunction with the Explanatory Memorandum of the Trust dated January 2020 (“**Explanatory Memorandum**”). The changes made to the Explanatory Memorandum by this Addendum shall take effect on 30 April 2021, unless otherwise stated herein.*

*All capitalized terms used in this Addendum have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Value Partners Hong Kong Limited, the Manager of the Trust, accepts full responsibility for the accuracy of the information contained in this Addendum and confirms, 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 in this Addendum misleading as at the date of publication.*

The Explanatory Memorandum will hereby be amended as follows:

**A. Introduction of swing pricing**

1. The last paragraph under the sub-section headed “**2.4 Risk Management Policy**” of the section headed “**2. INFORMATION ON THE TRUST**” on pages 22-23 of the Explanatory Memorandum shall be deleted in its entirety and replaced by the following:

“The following tool(s) may be employed by the Manager to manage liquidity risks:

- the Manager may limit the total number of Units which Unitholders are entitled to redeem in any Dealing Period to 10 per cent. of the total Net Asset Value of the Trust on the Valuation Day for that Dealing Period (subject to the conditions under the heading entitled “**3.4 Redemption of Units**” in the section headed “**3. SUBSCRIPTION AND REDEMPTION OF UNITS**”); and
- the Manager may adjust the Net Asset Value of a Unit of any Class on a Valuation Day in determining the Issue Price and Redemption Price where the net subscription/redemption exceeds certain pre-determined threshold(s) (as detailed under the heading entitled “**3.10 Anti-Dilution Pricing Adjustment Mechanism (Swing Pricing)**” in the section headed “**3. SUBSCRIPTION AND REDEMPTION OF UNITS**”).”

2. The following new risk factor shall be added immediately after the risk factor “**Effect of redemption**” under the sub-section headed “**2.5. Risk Factors**” of the section headed “**2. INFORMATION ON THE TRUST**” on page 25 of the Explanatory Memorandum:-

**“Pricing Adjustments Risk**

Subscriptions or redemptions may dilute the Trust’s assets due to dealing and other costs associated with the trading of underlying securities. In order to counter this impact, adjustment of prices (including swing pricing) may be adopted to protect the interests of the Unitholders. Consequently, investors may subscribe (redeem) at a higher subscription price (lower redemption price). Investors should note that the occurrence of events which may trigger adjustment of prices is not predictable. It is not possible to accurately predict how frequent such adjustments of prices will need to be made. Adjustments may be greater than or less than the actual charges incurred. Investors should also be aware that adjustment of prices may not always, or fully, prevent the dilution of the Trust’s assets.”

3. The following sub-section headed “**3.10 Anti-Dilution Pricing Adjustment Mechanism (Swing pricing)**” shall be inserted immediately after the sub-section headed “**3.9 Calculation and Publication of Net Asset Value**” under the section headed “**3. SUBSCRIPTION AND REDEMPTION OF UNITS**” on page 90 of the Explanatory Memorandum:-

**“3.10 Anti-Dilution Pricing Adjustment Mechanism (Swing pricing)**

In order to reduce the effect of “dilution” on the Trust, the Manager may (if in its opinion in good faith it is in the best interest of Unitholders to do so), adjust the Net Asset Value of a Unit of any Class. Dilution occurs when the actual cost of purchasing or selling the underlying assets of the Trust, deviates from the carrying value of these assets in the Trust’s valuation due to dealing and other costs, taxes and duties, market movements and any spread between the buying and selling prices of the underlying assets. Dilution may have an adverse effect on the value of the Trust and therefore impact the Unitholders. By adjusting the Net Asset Value per Unit, this effect can be reduced or mitigated and Unitholders can be protected from the impact of dilution.

Under normal market conditions, the Manager expects that the anti-dilution pricing adjustment will not exceed 3% of the Net Asset Value per Unit on the relevant Valuation Day. Under extreme market conditions (such as market crash or global financial crisis), the Manager may increase such amount to protect interests of the Unitholders.

In determining the Issue Price and Redemption Price of a Unit of any Class on each relevant Valuation Day, the Net Asset Value per Unit shall be increased by the aforesaid adjustment where the net subscription on the relevant Valuation Day exceeds certain pre-determined threshold(s), or decreased by the aforesaid adjustment where the net redemption on the relevant Valuation Day exceeds certain pre-determined threshold(s). Such pre-determined threshold(s) will be determined and reviewed on a periodic basis by the Manager.

The Manager will consult the Trustee prior to any adjustment and such adjustment will only be made where the Trustee has no objection to it. Any such additional amount will be retained by the Trust and will form part of the assets of the Trust.”

**B. Change of rounding of fraction of the Units**

1. The heading entitled “**3.10 Form of Units**” of the section headed “**3. SUBSCRIPTION AND REDEMPTION OF UNITS**” and the paragraph under such heading on page 90 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:-

**“3.11 Form of Units**

A contract note will normally be issued by the administrator as soon as practicable after the relevant Valuation Day upon acceptance of an application for subscription or switching of Units. Certificates for Units will, however, not normally be issued. The number of Units to be issued pursuant to any application for subscription or switching will be rounded down to four decimal places and any monies representing any lesser fraction of a Unit shall be retained for the benefit of the relevant Class.”

**C. Amendments to the Trustee and Registrar Fees**

1. The first to third paragraphs under the section headed “**5.2 Trustee and Registrar Fees**” on pages 104 and 105 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

“The Trustee is entitled to receive a Trustee fee out of the assets of the Trust calculated as a percentage of the Net Asset Value as at each Valuation Day. The current rates of the Trustee fee are as follows:

- 0.135 per cent. per annum on the first US\$150 million of the Net Asset Value of the Trust;

- 0.13 per cent. per annum on the next US\$650 million of the Net Asset Value of the Trust; and
- 0.125 per cent. per annum of the Net Asset Value of the Trust in excess of US\$800 million.

The Trustee fee may be increased up to a permitted maximum of 1.0 per cent. per annum of the Net Asset Value of the Trust on giving the Manager and the Unitholders one month's prior written notice (or such shorter notice period as approved by the SFC). The Trustee fee accrues daily and is calculated as at each Valuation Day and payable monthly in arrears, out of the Trust, provided that the aggregate Trustee fee payable to the Trustee for any month shall be no less than US\$4,500.

The Trustee is also entitled to be paid out of the Trust transaction fees and distribution handling fee at such rates within the Trustee's usual range of fees for similar transactions as agreed on a commercial arm's length basis with the Manager from time to time."

#### **D. Miscellaneous**

1. The following paragraphs and sections shall be inserted immediately before the section "**For Singapore Prospective Investors**" on pages 5 to 6 of the Explanatory Memorandum:

"The selling restrictions in this Explanatory Memorandum describe restrictions on offers and sales of the Units in particular jurisdictions however the jurisdictions mentioned are not exhaustive and the distribution of this Explanatory Memorandum and the offers and sales of Units in other jurisdictions not specified in this Explanatory Memorandum may be prohibited or restricted. No persons receiving a copy of this Explanatory Memorandum or the Subscription Form in any such jurisdiction may treat this Explanatory Memorandum or such Subscription Form as constituting an invitation to them to subscribe for Units, nor should they in any event use this Explanatory Memorandum or such Subscription Form, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such Subscription Form could lawfully be used by them without compliance with any registration or other legal requirements.

This Explanatory Memorandum or the Subscription Form does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

It is the responsibility of any persons in possession of this Explanatory Memorandum and any persons wishing to apply for Units pursuant to this Explanatory Memorandum to inform themselves of, and to observe, all laws and regulations applicable to them.

#### **For Australian Prospective Investors**

This Explanatory Memorandum is not a prospectus or product disclosure statement under the Corporations Act 2001 (Cth) (the "**Corporations Act**") and does not constitute a recommendation to acquire, an invitation to apply for, an offer to apply for or buy, an offer to arrange the issue or sale of, or an offer for issue or sale of, any securities in Australia except as set out below. The Trust has not authorised nor taken any action to prepare or lodge with the Australian Securities & Investments Commission an Australian law compliant prospectus or product disclosure statement.

Accordingly, this Explanatory Memorandum may not be issued or distributed in Australia and the Units in the Trust may not be offered, issued, sold or distributed in Australia by the Manager, or any other person, under this Explanatory Memorandum other than by way of or pursuant to an offer or invitation that does not need disclosure to investors under Part 6D.2 or Part 7.9 of the Corporations Act, whether by reason of the investor being a "wholesale client" (as defined in section 761G of the Corporations Act and applicable regulations) or otherwise.

This Explanatory Memorandum does not constitute or involve a recommendation to acquire, an offer or invitation for issue or sale, an offer or invitation to arrange the issue or sale, or an issue

or sale, of Units to a “retail client” (as defined in section 761G of the Corporations Act and applicable regulations) in Australia.

#### **For Bruneian Prospective Investors**

This Explanatory Memorandum relates to a foreign collective investment scheme under the Securities Markets Order, 2013 (the “**Order**”) which is not subject to any form of domestic regulations by the Autoriti Monetari Brunei Darussalam (the “**Authority**”) and further, it relates to a private collective investment scheme under the Order and is intended for distribution only to specific classes of investors such as an accredited investor, an expert investor or an institutional as specified in the Order at their request and must not, therefore, be delivered to, or relied on by, a retail client. The Authority is not responsible for reviewing or verifying any prospectus or other documents in connection with this collective investment scheme. The Authority has not approved this Explanatory Memorandum or any other associated documents nor taken any steps to verify the information set out in this Explanatory Memorandum, and has no responsibility for it.

The Units to which this Explanatory Memorandum relates may be illiquid or subject to restrictions on their resale. Prospective purchasers of the Units offered should conduct their own due diligence on the Units. If you do not understand the contents of this document you should consult your legal adviser.

#### **For Indian Prospective Investors**

This Explanatory Memorandum will not be registered as a prospectus with the Registrar of Companies in India, nor has the Registrar of Companies in India circulated or distributed nor will it circulate or distribute this Explanatory Memorandum or any other offering document or material relating to the offering, directly or indirectly, to the public or any members of the public in India. This Explanatory Memorandum does not constitute an offer to the public generally to subscribe for or otherwise acquire the securities and is for the exclusive use of the recipient where the recipient obtained this Explanatory Memorandum on its own or pursuant to a reverse inquiry.

#### **For Indonesian Prospective Investors**

The offering of the Units is not registered under the Indonesian Capital Markets Law and its implementing regulations and is not intended to become a public offering of units under the Indonesian Capital Markets Law and regulations. This Explanatory Memorandum does not constitute an offer to sell nor a solicitation to buy securities within Indonesia.

#### **For Malaysian Prospective Investors**

As the recognition or approval by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained, and as this Explanatory Memorandum and other related documents have not been / will not be lodged or registered with or delivered to the Malaysian Securities Commission, no offer or invitation for subscription or purchase of Units shall be made within Malaysia and this Explanatory Memorandum and any other document or material in connection therewith shall not be distributed, caused to be distributed or circulated within Malaysia.

#### **For New Zealand Prospective Investors**

Units in the Trust are not offered in New Zealand other than to “wholesale investors” within the meaning of clause 3(2) of Schedule 1 to the Financial Markets Conduct Act 2013 (“**FMCA**”). If you are a New Zealand investor, and apply for Units in the Trust, you warrant that you are such a “wholesale investor” and agree that you will not sell the Units in the Trust within 12 months after they are issued, in circumstances where disclosure would be required under Part 3 of the FMCA.

### **For Philippines Prospective Investors**

The securities being offered or sold herein are being offered pursuant to exempt transactions under 10.1 (I) of the Securities Regulation Code and have not been registered with the Securities and Exchange Commission under the Securities Regulation Code. Any future offer or sale of the securities is subject to the registration requirements under the Securities Regulation Code unless such offer or sale qualifies as an exempt transaction.

By a purchase of a security, the investor will be deemed to acknowledge that the issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, such security was made outside the Philippines.”

2. The following sections are inserted immediately after the section “**For Singapore Prospective Investors**” on pages 5 to 6 of the Explanatory Memorandum:

### **“For Taiwan Prospective Investors**

The Units are being made available (i) to Taiwan resident investors outside Taiwan for purchase by such investors outside Taiwan; (ii) to the offshore banking units (as defined in the Taiwan Offshore Banking Act) of Taiwan banks, the offshore securities units (as defined in the Taiwan Offshore Banking Act) of Taiwan securities firms or the offshore insurance units (as defined in the Taiwan Offshore Banking Act) of Taiwan insurance companies purchasing the Units either for their proprietary account or for the accounts of their non-Taiwan clients; (iii) before the Trust is registered for public offering and sale in Taiwan, only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, “**Qualified Institutions**”) and other entities and individuals meeting specific criteria (“**Other Qualified Investors**”) to the extent permitted under the Taiwan Rules Governing Offshore Funds, but may not be otherwise be offered, sold or resold in Taiwan. Taiwan purchasers of the Units may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission; and (iv) after the Trust is registered for public offering and sale in Taiwan, to all Taiwan resident investors through licensed financial institutions.

### **For Thailand Prospective Investors**

This Explanatory Memorandum has not been approved by the Securities and Exchange Commission Thailand which takes no responsibility for its contents. No offer to the public to purchase the Units will be made in Thailand and this Explanatory Memorandum is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

### **For United Arab Emirates Prospective Investors**

This Explanatory Memorandum, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates (“**UAE**”) and accordingly should not be construed as such.

The marketing of the Units in the UAE requires the prior approval of the Securities and Commodities Authority (“**SCA**”) unless the exemptions to the regulations relating to promotion or offering of units in foreign funds or foreign units (SCA Board of Directors Decision no 3/RM of 2017 concerning the organization of promotion and introduction, as further revised and updated) apply. Consequently, based on the mentioned exemptions, the Units are only being offered to (A) a limited number of investors in the UAE who (a) are willing and able to conduct an independent investigation of the risks involved in an investment in such Units, (b) upon their specific request, and (c) on a cross-border basis (an “**unsolicited request**”); or (B) to a limited number of exempt investors in the UAE who fall under one of the following categories of Exempt Qualified Investors: (1) an investor which is able to manage its investments on its own (unless such person wishes to be classified as a retail investor), namely: (a) the federal government, local governments, and governmental entities, institutions and authorities, or companies wholly-owned by any such

entities; (b) foreign governments, their respective entities, institutions and authorities or companies wholly owned by any such entities; (c) international entities and organisations; (d) entities licensed by the SCA or a regulatory authority that is an ordinary or associate member of the International Organisation of Securities Commissions (a “**Counterpart Authority**”); or (e) any legal person who fulfils on the date of the last financial statements at least two of the following requirements: (i) total assets of AED 75 million; (ii) net revenues or annual income of AED 150 million; or (iii) net equities or paid capital of AED 7 million; or (2) a natural person licensed by the SCA or a Counterpart Authority to carry out any of the functions related to financial activities or services (each an “**Exempt Qualified Investor**”).

The Units have not been approved by or licensed or registered with the UAE Central Bank, the SCA, the Dubai Financial Services Authority, the Financial Services Regulatory Authority or any other relevant licensing authorities or governmental agencies in the UAE (the “**Authorities**”). The Authorities assume no liability for any investment that the named addressee makes as an Exempt Qualified Investor.

The Explanatory Memorandum is for the use of the named addressee only, and in case the Units are being offered on unsolicited request basis, the named addressee has specifically requested it, on a cross-border basis, without a promotion effected by Value Partners Hong Kong Limited, its promoters or the distributors of the Units. The Explanatory Memorandum should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

In relation to Units being offered to Exempt Qualified Investors, no transaction will be concluded in the UAE and any enquiries regarding the Units should be made to the Manager.”

3. The first paragraph under the sub-section headed “**2.1 Trust Structure**” of the section headed “**2. INFORMATION ON THE TRUST**” on page 12 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:-

“The Trust is an open-ended unit trust originally established under the laws of the Cayman Islands in the name of Value Partners Asian High Yield Fund pursuant to the trust deed dated 2 August 2002 (the “**Original Deed**”). Pursuant to the Second Supplemental Trust Deed dated 10 April 2003 (the “**Second Supplemental Deed**”), its name was changed to Value Partners High-Dividend Stocks Fund. Pursuant to a Deed of Retirement and Appointment of the Trustee dated 31 March 2016 (the “**First Deed of Retirement and Appointment**”), the Trust changed its domicile from the Cayman Islands to Hong Kong and HSBC Institutional Trust Services (Asia) Limited was appointed as trustee in place of Bank of Bermuda (Cayman) Limited with effect from 22 April 2016. Pursuant to a Deed of Retirement and Appointment of the Manager dated 31 March 2016 (the “**Second Deed of Retirement and Appointment**”), Value Partners Hong Kong Limited was appointed as manager in place of Value Partners Limited with effect from 22 April 2016. The Original Deed was amended and restated by a supplemental deed dated 1 January 2020 (the “**Supplemental Deed**”). The Original Deed, the Second Supplemental Deed, the First Deed of Retirement and Appointment, the Second Deed of Retirement and Appointment and the Supplemental Deed, as amended from time to time, shall collectively be referred to as the “**Trust Deed**”.”

4. The first to fourth paragraphs under the heading “**Investor Compensation**” under the sub-section headed “**2.3 Stock Connects**” under the section headed “**2. INFORMATION ON THE TRUST**” on page 21 of the Explanatory Memorandum shall be deleted in their entirety and replaced with the following:

“The Trust’s investments through Northbound trading under the Stock Connects are conducted through securities brokers in Hong Kong. Since the Trust is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, therefore it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China.”

5. The following new risk factor shall be added immediately after the risk factor “**Political, Economic and Social Risks**” under the sub-section headed “**2.5. Risk Factors**” of the section headed “**2. INFORMATION ON THE TRUST**” on page 34 of the Explanatory Memorandum:-

**“Risk Relating to Pandemics or Natural Disasters**

It is possible that a serious pandemic (such as the COVID-19 outbreak in 2020) or a natural disaster may cause severe disruption on the global economy, and may have an adverse impact on the operation of the Trust. The continued spread of COVID-19 or an outbreak of other pandemics or any natural disaster or the measures taken by the governments of affected countries may have an adverse effect on global or regional economic conditions and may adversely affect the ability of the Trust to accurately determine the value of its underlying investments.”

6. The paragraph under the sentence titled “**No Protection by Investor Compensation Fund**” under sub-section risk factor headed “**Risks associated with Stock Connects**” under the sub-section headed “**2.5 Risk Factors**” of the section “**2. INFORMATION ON THE TRUST**” on page 53 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:-

“As disclosed in the section under the heading “**2.3 Stock Connects**”, since the Trust is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the Mainland China.”

7. The first paragraph under the sub-section headed “**6.1 Distribution Policy**” of the section headed “**6. GENERAL INFORMATION**” on page 111 of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:-

“The Manager may, in accordance with the Trust Deed, determine to make a distribution out of income and/or capital (including but not limited to unrealised capital gains or other unrealized profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years) of the Trust to Unitholders. Investors should note that the payment of dividends out of capital represents a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to the original investment. Such distributions may result in an immediate reduction of the Net Asset Value per Unit in the relevant Class of the Trust.”

8. The second paragraph on page 113 under the sub-section headed “**6.1 Distribution Policy**” of the section headed “**6. GENERAL INFORMATION**” of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:-

“In the event that the net distributable income attributable to Class A1 Units, Class A2 MDis Units, Class A2 MDis HKD Units, Class A2 MDis HKD Hedged Units, Class A2 MDis AUD Hedged Units, Class A2 MDis CAD Hedged Units, Class A2 MDis GBP Hedged Units, Class A2 MDis NZD Hedged Units, Class A2 MDis SGD Hedged Units, Class A2 MDis RMB Unhedged Units, Class A2 MDis RMB Hedged Units, Class A2 MDis JPY Hedged Units and Class X MDis USD Unhedged Units, during the relevant period is insufficient to pay dividends as declared, the Manager may in its discretion determine such dividends be paid from capital (including but not limited to unrealized capital gains or other unrealised profits during the relevant financial year and undistributed net income and undistributed net realised capital gains or profits brought forward from previous financial years). Payment of dividends out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment.”

30 April 2021