

# **CFUND**

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

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## **EXPLANATORY MEMORANDUM**

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10 April 2026

# CFUND - CHINA EQUITY

(each a “Sub-Fund”)

*(sub-funds of CFund (the “Trust”), a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong)*

## SECOND ADDENDUM

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

This Addendum forms part of and should be read in conjunction with the Sub-Funds’ Explanatory Memorandum dated 10 April 2026, as may be amended and supplemented from time to time, including by the First Addendum dated 27 April 2026 (“Explanatory Memorandum”). The changes made to the Explanatory Memorandum by this Addendum shall take immediate effect.

All capitalized terms used in this Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Pickers Capital Management Limited, the Manager, 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 issuance.

The Explanatory Memorandum will hereby be amended as follows:

### **Addition of Directors of the Manager**

The information regarding Mr. CHAN Pong Chi and Ms. LEE Yuk Mei will be added under the subsection “The Manager” under the heading “MANAGEMENT OF THE TRUST” on page 9 of the Explanatory Memorandum with the following:

#### **Mr. CHAN Pong Chi (“Joseph”)**

Joseph has over 20 years of financial industry experience. He joined Pickers Capital Management Limited (“Pickers”) in 2025 as General Manager to manage business development and operations. He leads and supervises Pickers’ overall investment strategies, including asset selection, tactical allocation, and risk management. Joseph also has direct oversight over Pickers’ operations and project management. Joseph holds a Master of Professional Accounting degree from The Hong Kong Polytechnic University and has been a member of the Hong Kong Institute of Certified Public Accountants since 2005.

#### **Ms. LEE Yuk Mei (“Kennex”)**

Kennex has over 26 years of financial investment industry experience. She joined Pickers Capital Management Limited (“Pickers”) in 2022 as Chief Operating Officer, overseeing the Pickers’ operations, finance, and compliance frameworks. Prior to her current role, she spent 17 years (2005–2022) as the Chief Operating Officer and Compliance Officer for an asset management firm, managing full-scale operations, budgeting, and the full spectrum of compliance issues. Her earlier career includes serving as a Manager and SFC Licensed Representative (Types 1 & 4) in institutional sales, as well as an executive role in corporate finance. Kennex holds a Bachelor of Arts in Business Studies from The Hong Kong Polytechnic University and a Master of Accounting from Curtin University of Technology in Australia.

29 June 2026

# CFUND - CHINA EQUITY

(each a “Sub-Fund”)

*(sub-funds of CFund (the “Trust”), a Hong Kong umbrella unit trust, authorised under Section 104 of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong)*

## FIRST ADDENDUM

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

This Addendum forms part of and should be read in conjunction with the Sub-Funds’ Explanatory Memorandum dated 10 April 2026 (“Explanatory Memorandum”). The changes made to the Explanatory Memorandum by this Addendum shall take immediate effect.

All capitalized terms used in this Addendum shall have the same meaning as in the Explanatory Memorandum, unless otherwise defined herein. Pickers Capital Management Limited, the Manager, 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 issuance.

The Explanatory Memorandum will hereby be amended as follows:

### **A. Change of address of the Manager**

The Manager’s office address under the heading “DIRECTORY” on page iii of the Explanatory Memorandum shall be deleted in its entirety and replaced with the following:

<b>Manager</b>	Pickers Capital Management Limited Suites 1701-03, 17/F, Wharf T&T Centre, Harbour City 7 Canton Road Tsim Sha Tsui Kowloon, Hong Kong
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27 April 2026

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## **IMPORTANT INFORMATION FOR INVESTORS**

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

CFund (the “Trust”) is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed between Pickers Capital Management Limited as manager (the “Manager”) and BOCI-Prudential Trustee Limited as trustee (the “Trustee”) as amended and restated on 31 December 2019.

A product key facts statement which contains the key features and risks of each of the Sub-Funds is also issued by the Manager and such product key facts statement shall form part of this Explanatory Memorandum, and shall be read, in conjunction with, this Explanatory Memorandum.

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as at any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated. Investors should check the Manager’s website at [www.pickerscapital.com](http://www.pickerscapital.com)\*) for the latest version of the Explanatory Memorandum.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the latest available annual financial report of the relevant Sub-Fund and any subsequent interim financial report. Units in the relevant Sub-Fund are offered on the basis only of the information contained in this Explanatory Memorandum and (where applicable) its latest annual financial report and interim financial report. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

The Trust and each Sub-Fund have been authorised by the Securities and Futures Commission in Hong Kong (the “SFC”) under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Trust or any Sub-Fund nor does it guarantee the commercial merits of the Trust or any Sub-Fund or their performance. It does not mean the Trust or a Sub-Fund is suitable for all investors nor is it an endorsement of their suitability for any particular investor or class of investors.

No action has been taken in any jurisdiction (other than Hong Kong) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

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

Investors may raise any questions on or make any complaints about the Trust (including the Sub-Fund) by contacting the Manager at its address as set out in the Directory of this Explanatory Memorandum, or by phone at its telephone number: +852 2989 1083.

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

## **DIRECTORY**

<b>Manager</b>	Pickers Capital Management Limited Suites 801-802, 8/F, South Tower World Finance Centre, Harbour City 17-19 Canton Road Tsim Sha Tsui Kowloon
<b>Trustee, Administrator and Registrar</b>	BOCI-Prudential Trustee Limited Suites 1501-1507 & 1513 - 1516, 15/F 1111 King's Road Taikoo Shing Hong Kong
<b>Custodian</b>	Bank of China (Hong Kong) Limited 14/F, Bank of China Tower 1 Garden Road Central Hong Kong
<b>Legal Counsel to the Manager</b>	Simmons & Simmons 30/F, One Taikoo Place 979 King's Road Hong Kong
<b>Auditors</b>	PricewaterhouseCoopers 22/F, Prince's Building Central Hong Kong

## DEFINITIONS

The defined terms used in this Explanatory Memorandum have the following meanings:

- “Access Products”** means an access product, being a security (note, warrant, option or participation certificate) linked to a share or portfolios of shares which aims to synthetically replicate the economic performance of the underlying share or portfolios of shares.
- “Administrator”** means BOCI-Prudential Trustee Limited, acting in its capacity as administrator of a Sub-Fund.
- “Appendix”** means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.
- “Base Currency”** means the base currency of a particular Sub-Fund, as specified in the relevant Appendix.
- “Business Day”** means, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may determine from time to time, provided that where, as a result of a typhoon signal number 8, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise.
- “Class Currency”** means, in relation to a class of Units, the Base Currency of the Sub-Fund relating thereto or such other currency of account as the Manager may specify for such class of Units.
- “Code”** means the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time.
- “Connected Person”** has the meaning as set out in the Code which at the date of the Explanatory Memorandum, in relation to a company means:
- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company;
  - (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a);
  - (c) any member of the group of which that company forms part;  
or
  - (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).
- “Custodian”** means Bank of China (Hong Kong) Limited acting in its capacity as custodian of the investments and uninvested cash of a Sub-Fund;

<b>“Dealing Day”</b>	means, in relation to any Sub-Fund, the days on which Units of that Sub-Fund may be subscribed or redeemed, as specified in the relevant Appendix.
<b>“Dealing Deadline”</b>	means, in respect of any Sub-Fund, such time on the relevant Dealing Day or any other Business Day as the Manager may from time to time determine (in consultation with the Trustee) in relation to the subscription and redemption of Units, as specified in the relevant Appendix.
<b>“entities within the same group”</b>	means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.
<b>“Government and other Public Securities”</b>	has the meaning as set out in the Code which at the date of the main body of this Explanatory Memorandum 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.
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the PRC.
<b>“Hong Kong Dollars” or “HKD”</b>	means the lawful currency of Hong Kong.
<b>“IFRS”</b>	means International Financial Reporting Standards issued by the International Accounting Standards Board.
<b>“Initial Offer Period”</b>	means, in respect of any class of Units, such period as may be specified by the Manager and notified to the Trustee for the purpose of making an initial offer of Units of such class, as specified in the relevant Appendix.
<b>“Manager”</b>	means Pickers Capital Management Limited or any other person or persons for the time being duly appointed Manager of the Trust in succession thereto.
<b>“Net Asset Value”</b>	means, in relation to any Sub-Fund or class of Units, the net asset value of such Sub-Fund or class, as the context may require, calculated in accordance with the provisions of the Trust Deed.
<b>“PRC” or “China”</b>	means the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.
<b>“Redemption Price”</b>	means the price per Unit at which Units of the relevant class will be redeemed, which price shall be ascertained in accordance with the section headed “REDEMPTION OF UNITS” below.
<b>“Registrar”</b>	means BOCI-Prudential Trustee Limited, or such other person as the Trustee may from time to time appoint to maintain the register in respect of any Sub-Fund.

<b>“reverse repurchase transactions”</b>	means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.
<b>“RMB” or “Renminbi”</b>	means the Renminbi Yuan, the currency of the PRC.
<b>“sale and repurchase transactions”</b>	means transactions whereby a Sub-Fund 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.
<b>“securities financing transactions”</b>	means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.
<b>“securities lending transactions”</b>	means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
<b>“SFC”</b>	means the Securities and Futures Commission of Hong Kong.
<b>“SFO”</b>	means the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong.
<b>“Sub-Fund”</b>	means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed and with respect to which one or more separate classes of Units is issued.
<b>“Subscription Price”</b>	means the price per Unit at which Units of a particular class will be issued, which price shall be ascertained in accordance with the section headed “SUBSCRIPTION OF UNITS” below.
<b>“Trust”</b>	means CFund.
<b>“Trust Deed”</b>	means the trust deed establishing the Trust entered into by the Manager and the Trustee dated 6 November 2018, and as amended and/or supplemented from time to time, as amended and restated on 31 December 2019 and as further amended from time to time.
<b>“Trustee”</b>	means BOCI-Prudential Trustee Limited or such other person or persons for the time being duly appointed trustee or trustees hereof in succession thereto.
<b>“Unit”</b>	means a unit of the class to which it relates and except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.
<b>“Unitholder”</b>	means a person registered as a holder of a Unit.
<b>“US dollars” or “USD”</b>	means the lawful currency of the United States of America.
<b>“Valuation Day”</b>	means, in relation to any class of Units, the Business Day as at which the Net Asset Value and the Net Asset Value per Unit is to be calculated and/or such other Business Day or Business Days as the Manager may from time to time determine.

**“Valuation Point”**

means, unless otherwise specified in the relevant Appendix, the close of business in the last relevant market to close on each Valuation Day or such other time consistent with standard market practice as the Manager may determine either generally or in relation to a particular class of Units.

## **INTRODUCTION**

CFund is an open-ended umbrella unit trust established under the laws of Hong Kong pursuant to the Trust Deed. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust has been established as an umbrella fund and separate and distinct Sub-Funds may be established by the Manager and the Trustee within the Trust from time to time. Each Sub-Fund has its own investment objective and policies. More than one class of Units may be offered in relation to a particular Sub-Fund, which may have different terms, including different currencies of denomination. A separate portfolio of assets will not be maintained for each class. All classes of Units relating to the same Sub-Fund will be commonly invested in accordance with such Sub-Fund's investment objective and policies. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts.

A separate Net Asset Value per Unit will be calculated for each class following the close of the relevant Initial Offer Period. Additional classes of Units of any of the Sub-Funds and/or additional Sub-Funds may be created in the future in accordance with the Trust Deed.

Information relating to the Trust and the Sub-Funds, including the latest versions of the Sub-Funds' offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website [www.pickerscapital.com](http://www.pickerscapital.com) \*.

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

## **MANAGEMENT OF THE TRUST**

### **The Manager**

The Manager of the Trust is Pickers Capital Management Limited.

The Manager is a private company limited by shares, incorporated in Hong Kong on 26 June 2014 with company number 2113714 under the Companies Ordinance and is licensed by the SFC to carry Type 9 (asset management) regulated activities with CE Number BDW926 in Hong Kong under the Securities and Futures Ordinance.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust and each Sub-Fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the accounts and records of the Trust and each Sub-Fund as well as certain other administrative matters relating to the Trust and each Sub-Fund.

The Manager may appoint investment managers or investment advisers in relation to specific Sub-Funds (details of any such appointments are set out in the relevant Appendix), subject to the approval of the SFC and at least one month's prior notice to Unitholders (where applicable). Where the investment management functions in respect of a Sub-Fund are delegated to third party investment managers or investment advisers, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager may be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

The Directors of the Manager are as follows:

#### ***Mr. LEUNG Kwan Yu ("David")***

David has over 18 years of asset management and financial industry experience. He joined Centaline Financial Group Limited (the "Group") in 2006 and has held various roles across multiple functions, including Investment Research, Portfolio Management, Sales and Distribution. David is currently Chief Executive Officer of Centaline Finance Group Limited and the Director of the Group's wholly-owned subsidiaries, Centaline Wealth Management Limited, Centaline Securities Limited, Centaline Financial Services Limited, Centa-Key Financial Services Limited and Pickers Capital Management Limited, where he is responsible for overseeing business development, management and operations. He is also Director of Finance 730 Limited, the Group's online financial media platform. David holds a Masters of Business Administration from the Hong Kong University of Science and Technology and a Bachelor of Social Sciences in Economics from the Chinese University of Hong Kong. He is a Chartered Financial Analyst (CFA) charterholder.

#### ***Mr. LO Ho Shun ("Calvin")***

Calvin joined Pickers Capital Management Limited ("Pickers") in 2018 as Investment Analyst covering the auto, healthcare and consumer sectors. He was promoted to Fund Manager, playing a key role in portfolio management, investment research, risk management and fund operations. Calvin currently heads Pickers' China equity research team. Calvin graduated from the Imperial College London with a Master of Engineering degree in Electrical and Electronic Engineering.

### **The Trustee, Administrator and Registrar**

The Trustee of the Trust is BOCI-Prudential Trustee Limited, which is a joint venture of BOC Group Trustee Company Limited (owned by BOC International Holdings Limited and Bank of China (Hong Kong) Limited) and Prudential Corporation Holdings Limited. The Trustee is a registered trust company under the Trustee Ordinance. The Trustee also acts as the Administrator and Registrar for each Sub-Fund.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust and the Sub-Funds, subject to the provisions of the Trust Deed.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee or agent, all or any of the investments, assets or other property comprised in the Trust or any of the Sub-Funds and may empower any such custodian, nominee or agent to appoint, with no objection in writing by the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a "Correspondent"). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents and (b) be satisfied that Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant custodial services to a Sub-Fund. The Trustee shall be liable for the acts and omissions of any Correspondent which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

The Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking, S.A. or any other recognised depository or clearing system which may from time to time be approved by the Trustee and the Manager.

Subject to applicable legal or regulatory requirements and as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Trust and/or any of the Sub-Funds.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the relevant Sub-Fund, in respect of all liabilities and expenses incurred in relation to such Sub-Fund, from and against any and all actions, proceedings, liabilities, costs, claims, damages and expenses, including all reasonable legal, professional and other similar expenses (other than any liability to Unitholders imposed under Hong Kong law or resulting from breaches of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with such Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of breach of trust through fraud, or negligence or wilful default by it or any agent, sub-custodian or delegate appointed by the Trustee, be liable for any losses, costs or damage to the Trust, the Sub-Fund or any Unitholder.

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

The appointment of the Trustee may be terminated in the circumstances set out in the Trust Deed.

The Trustee is entitled to the fees set under the section on "EXPENSES AND CHARGES" and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or each Sub-Fund and the Trustee, the Administrator, the Registrar (including its delegate) are not responsible and have no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Explanatory Memorandum and/or required by the Code, neither the Trustee, the Administrator, the Registrar nor any of their employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or any Sub-Fund, and they are not responsible for the preparation or issue of this Explanatory Memorandum other than the description under the sections on "The Trustee, Administrator and Registrar".

## **The Auditors**

The Manager has appointed PricewaterhouseCoopers, which is independent of the Manager and the Trustee, to act as the auditors of the Trust and each Sub-Fund.

## **The Custodian**

Bank of China (Hong Kong) Limited ("**BOCHK**") has been appointed as the custodian of the Trust and each Sub-Fund.

BOCHK was incorporated in Hong Kong on 16 October 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in BOC Credit Card (International) Limited.

BOC Hong Kong (Holdings) Limited was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. After a successful global IPO, BOC Hong Kong (Holdings) Limited began trading on the Main Board of The Stock Exchange of Hong Kong Limited on 25 July 2002 with stock code "2388" and became a Hang Seng Index constituent stock on 2 December 2002.

With a network of some 200 branches, servicing more than 600,000 corporates and 2 million retail customers, BOCHK is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund-related services for institutional clients.

Pursuant to a custodian agreement, BOCHK will act as the custodian of the Trust and each Sub-Fund's assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates.

## **INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS**

### **Investment objective**

The investment objective of each Sub-Fund is set out in the relevant Appendix.

### **Investment strategy**

The investment strategy of each Sub-Fund is set out in the relevant Appendix.

### **Investment and borrowing restrictions**

#### **Investment Restrictions**

The following principal investment restrictions apply to each Sub-Fund authorised by the SFC, unless otherwise provided in the relevant Appendix:

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of the Sub-Fund unless otherwise permitted under the Code:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of financial derivative instrument ("FDI"); 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 a Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the Net Asset Value of the Sub-Fund:
  - (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 Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the Net Asset Value of the Sub-Fund, unless:
  - (1) the cash is held before the launch of the Sub-Fund 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 Sub-Fund, whereby the placing of cash deposits with various financial institutions may 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;
- (d) ordinary shares issued by any single entity held for the account of the Sub-Fund, when

aggregated with other holdings of ordinary shares of the same entity held for the account of all other Sub-Funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by a single entity;

- (e) not more than 15% of the Net Asset Value of a Sub-Fund 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), (d) and (e), where direct investment by the Sub-Fund in a market is not in the best interests of investors, the Sub-Fund 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 Sub-Fund, 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 Sub-Fund as a result must be clearly disclosed in the Prospectus; and
  - (3) the Sub-Fund must produce the reports required by 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 Sub-Fund;
- (g) notwithstanding (a), (b) and (d), not more than 30% of the Net Asset Value of a Sub-Fund may be invested in Government and other Public Securities of the same issue;
- (h) subject to (g), a Sub-Fund may fully invest in Government and other Public Securities in at least six different issues;
- (i) unless otherwise approved by the SFC, a Sub-Fund may not invest in physical commodities;
- (j) for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC; or
  - (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 (k) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and the relevant investment limits in exchange traded funds by the Sub-Fund should be consistently applied and clearly disclosed in this Explanatory Memorandum;

In this regard, unless otherwise specified in the relevant Appendix, investments in ETFs by a Sub-Fund are considered and treated as listed securities for the purposes of and subject to the requirements in Chapters 7.1, 7.1A and 7.2 of the Code.

(k) where the Sub-Fund invests in shares or units of other collective investment schemes (“**managed funds**”),

- (1) the value of the Sub-Fund’s investment in units or shares in managed funds which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10% of the Net Asset Value of the Sub-Fund; and
- (2) the Sub-Fund may invest in one or more managed funds which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Sub-Fund’s investment in units or shares in each such managed fund may not exceed 30% of the Net Asset Value of the Sub-Fund, unless the managed fund is authorised by the SFC and its name and key investment information are disclosed in the Explanatory Memorandum of the Sub-Fund,

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

- (i) the objective of each managed fund may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that managed fund’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 Sub-Fund 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% of its total Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);
  - (ii) where the managed funds are managed by the same management company as that of the Sub-Fund that invests in them, 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 managed fund;
  - (iii) the objective of the managed funds may not be to invest primarily in other collective investment scheme(s);
  - (iv) where an investment is made in any managed fund(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the managed fund(s) must be waived; and
  - (v) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by a managed fund or the management company of a managed fund, or quantifiable monetary benefits in connection with investments in any managed fund;
- (l) the Sub-Fund may invest 90% or more of its total Net Assets Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case:
- (1) the managed fund (“**master fund**”) must be authorised by the SFC;
  - (2) the Explanatory Memorandum must state that:
    - (i) the Sub-Fund is a feeder fund into the master fund;
    - (ii) for the purpose of complying with the investment restrictions, the Sub-Fund and its master fund will be deemed a single entity;

- (iii) the Sub-Fund's annual report must include the investment portfolio of the master fund as at the financial year end date; and
- (iv) the aggregate amount of all the fees and charges of the Sub-Fund and its underlying master fund must be clearly disclosed;
- (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, management company's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders or by the Sub-Fund may result, if the master fund in which the Sub-Fund invests is managed by the Manager or by its Connected Person; and
- (4) notwithstanding paragraph (k)(iii) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (k); and
- (m) if the name of the Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

A Sub-Fund 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% of the total nominal amount of all the issued securities of that Class or the directors and officers of the Manager collectively own more than 5% of those securities;
- (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 real estate investment trusts (REITs));
- (c) make short sales if as a result a Sub-Fund would be required to deliver Securities exceeding 10% of the Net Asset Value of the Sub-Fund and for this purpose Securities sold short must be actively traded on a market where short selling is permitted (for the avoidance of doubt, a Sub-Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations);
- (d) lend or make a loan out of the assets of a Sub-Fund, except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (e) 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;
- (f) enter into any obligation in respect of a Sub-Fund or acquire any asset or engage in any transaction for the account of a Sub-Fund which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders is limited to their investment in the relevant Sub-Fund; or
- (g) apply any part of the Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of a Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs or the purposes of Chapter 7.29 and 7.30 of the Code.

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders.

### Borrowing

Subject always to the provisions of the Trust Deed and the Code, borrowing against the assets of the Sub-Fund is allowed up to a maximum of 10% of its latest available Net Asset Value. The Trustee may, at the request of the Manager concur to borrow for the account of a Sub-Fund any currency, and charge or pledge assets of the Sub-Fund for securing such borrowing for the account of the Sub-Fund, and interest thereon and expenses thereof), for the following purposes:

- (a) facilitating the creation or redemption of Units or defraying operating expenses;
- (b) enabling the Manager to acquire Securities for the account of the Sub-Fund; or
- (c) for any other proper purpose as may be agreed by the Manager and the Trustee.

### *Securities Financing Transactions*

Where specified in the relevant Appendix, a Sub-Fund may enter into securities financing transactions provided that they are in the best interests of the Unitholders, 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; and
- (b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction.

The Sub-Fund is subject to the following requirements when engaging in securities financing transactions:

- it shall have at least 100% collateralisation in respect of the securities financing transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;
- all the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities lending transactions to the extent permitted by applicable legal and regulatory requirements, shall be returned to the Sub-Fund;
- it shall ensure that it is able to at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the securities financing transactions or terminate the securities financing transactions into which it has entered; and
- the counterparties to the securities financing transactions must be financial institutions which are subject to ongoing prudential regulation and supervision.

Further, details of the securities financing transactions or other similar over-the-counter arrangements are as follows:-

- (a) any incremental income earned from any securities lending arrangement may be split between the relevant Sub-Fund and any security lending agent in such proportion as the Manager may determine in each case, provided that the amount payable to any security lending agent should not exceed 30% of such incremental income. All incremental income generated from repurchase transactions, including reverse repurchase agreements, entered into by the Sub-Fund will accrue to the Sub-Fund. Income accruing to the relevant Sub-Fund, after deduction of any fees or commission payable will be credited to the account of the relevant Sub-Fund and such income will be disclosed in its annual financial reports;
- (b) each counterparty is expected to have a minimum credit rating of A2 assigned by Moody's or equivalent, or deemed to have an implied rating of A2; alternatively, an unrated counterparty will be acceptable where the relevant Sub-Fund is indemnified against losses caused by the counterparty, by an entity which has a minimum credit rating of A2;
- (c) 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, sold or purchased (as the case may be) 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;
- (d) the relevant Sub-Fund may be engaged in such transactions for up to 100% (or a lower percentage as specified in the relevant Appendix) of its assets; and
- (e) where any 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. Such transactions with Connected Persons of the Trustee or the Manager (including the fee retained by the Trustee or the Manager or their Connected Persons) will be disclosed in the connected party transaction section of the relevant Sub-Fund's annual financial reports.

#### Financial Derivative Instruments

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of a Sub-Fund enter into any transactions in relation to swaps or other FDIs, for hedging or non-hedging (investment) purposes.

A Sub-Fund may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purpose 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) 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.

A Sub-Fund may acquire FDIs for non-hedging purposes ("**investment purposes**"), subject to the limit that the Sub-Fund's net exposure relating to these FDIs ("**net derivative exposure**") does not

exceed 50% of its total Net Asset Value (unless otherwise approved by the SFC). For the avoidance of doubt:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Sub-Fund 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 position;
- (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) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

Subject to 7.26 and 7.28 of the Code, a Sub-Fund may invest in FDIs provided that the exposure to the underlying assets of the FDI, together with the other investments of the Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in the relevant provisions of Chapter 7 of the Code.

The FDIs invested by a Sub-Fund 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 or currencies, in which the Sub-Fund may invest according to its investment objectives and policies;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions;
- (c) subject to 7.1 and 7.1A of the Code, the net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of the Sub-Fund; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Sub-Fund.

The Sub-Fund 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. A transaction in FDIs which gives rise to a future commitment or contingent commitment of the Sub-Fund should also be covered as follows:

- in the case of FDI transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- in the case of FDI transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund 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 Sub-Fund 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.

The above policies relating to FDIs apply to financial instruments which embed financial derivatives as well.

### Collateral

Collateral received from counterparties shall comply with the following requirements:

- 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;
- 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;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and a Sub-Fund's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapter 7 of the Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs in such a way that would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs 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;
- Independent custody – collateral must be held by the Trustee;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs;
- Cash 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. Non-cash collateral received may not be sold, re-invested or pledged;
- Encumbrances – collateral should be free of prior encumbrances; and
- Collateral 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.

Subject to and in addition to the requirements above, below is a summary of the collateral policy and criteria adopted by the Manager:

- eligible collateral includes cash, treasury and money market securities; collateral should normally be traded in a deep and liquid marketplace with transparent pricing; there are no constraints on the maturity of collateral;
- issuers of collateral should be of high credit quality; collateral on assets that exhibit high price volatility may be accepted only if suitably conservative haircuts are in place;
- Haircuts should be based on the market risks of the assets used as collateral to cover the potential maximum decline in collateral value in liquidation. The haircut to be applied to the collateral should be based on risk assessments performed by the Manager, who will consider the nature and quality of the collateral and the relevant Sub-Fund's investment objectives and strategy;
- collateral must be appropriately diversified so as to avoid concentrated exposure to any single issuer; counterparty exposure as a percentage of the Sub-Fund's Net Asset Value must not contravene the investment restrictions or limitations set out in Chapter 7 of the Code;
- correlation between the counterparty and the collateral received must be avoided;
- collateral must be readily enforceable by the Trustee and may be subject to netting or set-off; and
- the maximum amount available for cash collateral re-investment does not extend beyond the value of the instrument in which such investment is initially made.

A description of holdings of collateral (including a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Sub-Fund (by percentage) secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Sub-Fund's annual and interim reports for the relevant period.

## **SUBSCRIPTION OF UNITS**

### **Initial issue of Units**

During an Initial Offer Period, Units in a Sub-Fund will be offered to investors at an initial Subscription Price of a fixed price per Unit as specified in the relevant Appendix.

If specified in the relevant Appendix, in the event that the total amount received by the Registrar from the subscription of the Units reaches a maximum amount for aggregate subscriptions (as specified in the relevant Appendix) at any time during an Initial Offer Period, the Manager is entitled (but not obliged) to close the Sub-Fund to further subscriptions before the end of the relevant Initial Offer Period.

If specified in the relevant Appendix, the Manager may decide not to issue any Units in the event that less than a minimum amount for aggregate subscriptions (as specified in the relevant Appendix) is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such event subscription monies paid by an applicant will be returned by cheque by post or by telegraphic transfer or such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses) promptly after the expiry of the Initial Offer Period.

Units will be issued on the Business Day following the close of the Initial Offer Period or such other Business Day as the Manager may determine. Dealing of the Units will commence on the Dealing Day immediately following the closure of the relevant Initial Offer Period.

### **Subsequent issue of Units**

Following the close of the relevant Initial Offer Period, Units will be available for issue on each Dealing Day at the relevant Subscription Price.

The Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class of that Sub-Fund then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager. Any rounding adjustment will be retained by the relevant Sub-Fund. The Subscription Price will be calculated and quoted in the relevant Class Currency.

The Manager is entitled to impose a subscription fee on the Subscription Price for the application for the issue of each Unit. Different levels of subscription fee may be imposed, in relation to the issue of Units of different Sub-Funds and also in relation to different classes of Units of a Sub-Fund. The Manager may retain the benefit of such subscription fee or may pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the subscription fee are set out in the section headed "EXPENSES AND CHARGES" below.

In determining the Subscription Price, the Manager is entitled to add an amount (not exceeding 1% of the Net Asset Value per Unit of the relevant class) it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) fiscal and purchase charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred in investing a sum equal to the application monies and issuing the relevant Units or the remittance of money to the Trustee. Any such additional amount will be paid to the Trust and will form part of the assets of the relevant Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Subscription Price pursuant to the above paragraph under exceptional circumstances and if it considers it in the best interest of

the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net subscriptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

### **Application procedure**

To subscribe for Units, an applicant should complete a subscription application form (a “Subscription Form”) supplied with this Explanatory Memorandum or is otherwise available and return the original Subscription Form (if the original is required by the Manager or the Registrar), together with the required supporting documents, to the Registrar by post to its business address or by fax to the Registrar. The Manager may, in its absolute discretion, accept any applications for subscription made by other written or electronic forms agreed by the Registrar, in addition to post and fax.

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by the Registrar no later than 4:00 p.m. (Hong Kong time) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the Registrar by the relevant Dealing Deadline. Application requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units but no certificates will be issued.

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds. Applicants who intend to apply for Units through a distributor should therefore consult the distributor for details of the relevant dealing procedures.

Where an applicant applies for Units through a distributor, the Manager and the Trustee will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as Unitholder of the relevant Units. No individual investor account will be opened for an applicant applying for Units through a distributor. The Manager and the Trustee will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and redemption of Units and any related matters, as well as any costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

**No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the Securities and Futures Ordinance.**

The Manager may, at its discretion, reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest and net of expenses by cheque through the post or by telegraphic transfer or by such other means as the Trustee considers appropriate at the risk of the applicant.

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

### **Payment procedure**

Subscription monies should be paid in the Class Currency of the relevant class of Units. Payment details are set out in the Subscription Form.

Subscription monies paid by any person other than the applicant will not be accepted. The applicant is responsible for providing evidence for the source of its subscription monies.

The Manager may exercise its discretion to accept late payment of subscription monies, provisionally allot Units by reference to the Net Asset Value of the relevant class of Units in the relevant Sub-Fund and charge interest on such overdue monies until payment is received in full, at such rate as the Manager thinks appropriate. However, if payment of subscription monies in cleared funds are not received within such period as determined by the Manager (which shall not be more than 3 Business Days following the relevant Dealing Day on which an application was received by the Dealing Deadline under normal circumstances, unless otherwise agreed by the Manager), the application may, at the discretion of the Manager, be considered void and cancelled. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim against the Manager or the Registrar and any loss will be borne by the applicant. In addition, the Manager may require the applicant to pay to the Registrar, for the account of the relevant Sub-Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Day exceeds the applicable Redemption Price on the date of cancellation and the Registrar shall be entitled to charge the applicant a cancellation fee for the administrative costs involved in processing the application and subsequent cancellation. No previous valuations of the relevant Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

Payment in other freely convertible currencies may be accepted. Where amounts are received in a currency other than the relevant Class Currency, they will be converted into the relevant Class Currency and the proceeds of conversion (after deducting the costs of such conversions) will be applied in the subscription of Units in the relevant class of the relevant Sub-Fund. Conversion of currencies may involve delay, which may delay the subscription application. Bank charges (if any) incurred in converting the subscription monies into the relevant Class Currency shall be borne by the relevant applicant and accordingly will be deducted from the subscription proceeds.

## **General**

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders in respect of each Sub-Fund. Unitholders should therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details. Fractions of a Unit may be issued rounded down to the nearest 4 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption procedure**

Unitholders who wish to redeem their Units in a Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Registrar.

Any redemption request must be received by the Registrar before the Dealing Deadline. Investors redeeming Units through a distributor (or its nominee) should submit their redemption requests to the distributor (or its nominee) in such manner as directed by the distributor (or its nominee). Distributors (or their nominees) may have different dealing procedures, including earlier cut-off times for receipt of redemption requests. Where an investor holds its investment in Units through a distributor (or its nominee), the investor wishing to redeem Units must ensure that the distributor (or its nominee), as the registered Unitholder, submits the relevant redemption request by the Dealing Deadline. Redemption requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A redemption request should be given to the Registrar in writing and sent by post to the Registrar's business address or by fax or other electronic means to the acceptable by the Manager and agreed by the Registrar (with its original following promptly if the original is required by the Manager or the Registrar). The Manager may, in its absolute discretion, accept any redemption requests made by other written or electronic forms agreed by the Registrar in addition to post and fax. The redemption request must specify: (i) the name of the Sub-Fund, (ii) the class (if applicable) and the value or number of Units to be redeemed, (iii) the name(s) of the registered Unitholder(s) and the account number (if any) and (iv) payment instructions for the redemption proceeds.

Partial redemption of a holding of Units in a Sub-Fund by a Unitholder may be effected, provided that such redemption will not result in the Unitholder holding Units in a class less than the minimum holding for that class specified in the relevant Appendix. In the event that, for whatever reason, a Unitholder's holding of Units in a class is less than such minimum holding for that class, the Manager may give notice requiring such Unitholder to submit a redemption request in respect of all the Units of that class held by that Unitholder. A request for a partial redemption of Units with an aggregate value of less than the minimum amount for each class of Units specified in the relevant Appendix (if any) will not be accepted.

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 Registrar) or, in the absence of such notification, by all joint Unitholders.

### **Payment of redemption proceeds**

The Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the relevant Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such class then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager. Any rounding adjustment will be retained by the relevant Sub-Fund. The Redemption Price will be calculated and quoted in the relevant Class Currency of the relevant Sub-Fund.

In determining the Redemption Price, the Manager is entitled to deduct an amount (not exceeding 5% of the Net Asset Value per Unit of the relevant class) which it considers represents an appropriate allowance for (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) fiscal and sale charges, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, or (c) charges which are customarily incurred by the relevant

Sub-Fund in realising assets to provide funds to meet any redemption request. Any such deducted amount will be retained by and form part of the assets of the relevant Sub-Fund.

The Manager (after consultation with the Trustee) will only adjust the Redemption Price pursuant to the above paragraph under exceptional circumstances and if it considers it in the best interest of the Unitholders. Examples of such exceptional circumstances may include (a) the aggregate net redemptions in Units exceeding a pre-determined threshold set by the Manager from time to time; or (b) extreme market conditions which may have an unfavourable impact on the interests of existing Unitholders.

The Manager may at its option impose a redemption fee in respect of the Units to be redeemed as described in the section headed "EXPENSES AND CHARGES" below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders in respect of different classes of Units as to the amount of the redemption fee to be imposed (within the permitted limit provided in the Trust Deed) on such Unitholders.

The amount due to a Unitholder on the redemption of a Unit will be the Redemption Price, less any redemption fee. The redemption fee will be retained by the Manager.

Unitholders should note that redemption proceeds will not be paid to any Unitholder until (a) the duly signed original written redemption request (if such original is required by the Registrar) and all the know-your-customer and other supporting documents, if any are required, have been received by the Registrar; and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Registrar.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid at the risk and expense of the redeeming Unitholder in the Class Currency of the relevant Sub-Fund by telegraphic transfer to the Unitholder's pre-designated bank account as specified in the redemption request, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the markets in which a substantial portion of the relevant Sub-Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of redemption proceeds within the aforesaid time period not practicable. In such a case the details of such legal or regulatory requirements will be set out in the relevant Appendix and the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets. Any bank and other administrative charges associated with the payment of such redemption proceeds as well as the costs incurred in currency conversion, if any, will be borne by the redeeming Unitholder and deducted from the redemption proceeds.

With the prior consent of the Manager and on reasonable grounds, 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 of the relevant Sub-Fund being redeemed. Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

The Trust Deed provides that redemptions may be, in whole or in part, made *in specie* at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of any Sub-Fund unless otherwise specified in the relevant Appendix. In any event, redemptions may only be made *in specie*, in whole or in part, with the consent of the Unitholder requesting the redemption.

### **Restrictions on redemption**

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the total Net Asset Value or the number of Units of a Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10%, or such higher percentage as the Manager may determine either generally or in respect of any particular Dealing Day, of the total

number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that each single investor of the relevant Sub-Fund wishing to redeem Units of that Sub-Fund on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next succeeding Dealing Day based on the Redemption Price as at that Dealing Day, subject to the same limitation, and will have priority on such Dealing Day over subsequent redemption requests received in respect of such subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will promptly inform the Unitholders concerned.

The Manager may suspend the redemption of Units of any Sub-Fund, or delay the payment of redemption proceeds in respect of any redemption request received but which has not yet been effected prior to the suspension, during any period in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details please see the section headed "Suspension of Calculation of Net Asset Value").

### **Compulsory redemption**

If it shall come to the notice of the Trustee or the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person (unless such ownership is acceptable to the Manager); (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the relevant Sub-Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the relevant Sub-Fund to any additional regulation to which the Manager, the Trustee or the relevant Sub-Fund might not otherwise have incurred or suffered or been subject; (iii) in breach of, or reasonably deemed by the Manager to be in breach of, any applicable anti-money laundering or identification verification or national status or residency requirements imposed on him (whether under the terms of any underlying investment arrangement or otherwise) including without limitation the issue of any warranty or supporting document required to be given to the Trustee, the Registrar or the Manager; or (iv) in breach of any applicable law or applicable requirements of any country or governmental authority, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or to redeem such Units in accordance with the terms of the Trust Deed. 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.

## **SWITCHING**

The Manager may from time to time permit Unitholders to switch some or all of their Units of any Sub-Fund (the “Existing Sub-Fund”) into shares, units or interests in another class of the same Sub-Fund or in other collective investment schemes administered by the Trustee and managed by the Manager and which has been authorised by the SFC<sup>1</sup> (the “New Fund”). Switching to such New Fund will be by way of redeeming the Units held by the relevant Unitholders in accordance with the redemption procedures set out in the section headed “REDEMPTION OF UNITS” above and by re-investing the redemption proceeds thereof in such other collective investment schemes in accordance with the provisions of the relevant offering documents for such other collective investment schemes. A request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Fund (if any) and/or the Existing Sub-Fund.

Under the Trust Deed, the Manager is entitled to impose a switching fee as described in the section headed “EXPENSES AND CHARGES” below.

Where a request for switching is received by the Registrar prior to the Dealing Deadline in respect of a Dealing Day, switching will be effected as follows:

- redemption of the Units of the Existing Sub-Fund will be dealt with by reference to the Redemption Price on that Dealing Day (the “Switching Redemption Day”);
- where the Existing Sub-Fund and the New Fund have different currencies of denomination, the redemption proceeds of Units of the Existing Sub-Fund, after deduction of any switching fee, shall be converted into the currency of denomination of the New Fund; and
- the resulting amount will be used to subscribe for Units of the New Fund at the relevant subscription price on the relevant dealing day in respect of the New Fund (the “Switching Subscription Day”). The Switching Subscription Day shall be the same day as the Switching Redemption Day or (in the event that the Switching Redemption Day is not a dealing day in respect of the New Fund) the dealing day of the New Fund which immediately follows the relevant Switching Redemption Day, provided that the Trustee shall receive cleared funds in the relevant currency of the New Fund within such period as determined by the Manager. In the event that cleared funds are not received within the applicable period, the Switching Subscription Day shall be the day on which the Trustee receives cleared funds in the relevant currency by the dealing deadline of the New Fund.

The Manager may suspend the switching of Units during any period in which the determination of the Net Asset Value of any relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

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

## **FAX OR ELECTRONIC INSTRUCTIONS**

If applicants or Unitholders wish to give instructions for subscription, redemption or switching by facsimile or any other electronic means, applicants or Unitholders must first provide to the Registrar an original indemnity relating to fax or transmission via such other electronic means in the application or request.

The Registrar will generally act on faxed or any other electronic instructions for subscription, redemption or switching but may require signed original instructions. However, the Registrar may refuse to act on faxed or any other electronic instructions until the original written instructions are received. The Registrar may, in its absolute discretion, determine whether or not original instructions are also required in respect of subsequent applications or requests for subscription, redemption or switching sent by facsimile or any other electronic means by applicants or Unitholders.

Applicants or Unitholders should be reminded that if they choose to send the applications or requests for subscription, redemption or switching by facsimile or any other electronic means, they bear the risk of such applications or requests not being received. Applicants or Unitholders should note that the Trust, the Manager, the Trustee and the Registrar accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application or request sent by facsimile or any other electronic means or any amendment of such application or request or for any loss caused in respect of any action taken as a consequence of such faxed or any other electronic instruction believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile or any other electronic transmission report produced by the originator of such transmission discloses that such transmission was sent.

## VALUATION

### Valuation rules

The Net Asset Value of each Sub-Fund will be calculated by valuing the assets of the Sub-Fund and deducting the liabilities attributable to the Sub-Fund. These liabilities include, without limitation, any management fee, performance fee, trustee fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

Where a Sub-Fund has more than one class of Units, to ascertain the Net Asset Value of each class of Units as at any Valuation Point shall be calculated by:

- allocating among each class the Net Asset Value of the Sub-Fund pro rata in accordance with the Net Asset Value of each class, then adding the subscriptions and deducting the redemptions in respect of each class, immediately prior to the relevant Valuation Point; and
- deducting from the Net Asset Value of the class in question the fees, costs, expenses or other liabilities attributable to that class not already deducted in ascertaining the Net Asset Value of the Sub-Fund and adding to the Net Asset Value, assets specifically attributable to that class in order to arrive at the Net Asset Value of that relevant class.

The value of the assets of a Sub-Fund will be determined 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 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 (x) the market which, in the opinion of the Manager, provides the principal market for such investment; or (y) 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 other market; (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, 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 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;
- (b) the value of any investment (other than a commodity, futures contract or an interest in an unlisted 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 Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value of any unquoted investment (other than an interest in a collective investment scheme or a commodity) shall be determined on a regular basis by a professional person approved by the Trustee as qualified to value such unquoted investment. The Manager may also at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request cause a revaluation to be made of any unquoted investment (other than an interest in a collective investment Scheme or a commodity) on a regular basis by a

professional person approved by the Trustee as qualified to value such unquoted investment. Such professional person may, with the approval of the Trustee, 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 shall be ascertained in such manner as the Manager, with the approval of the Trustee, shall think fit, but so that:
  - (i) if such Commodity is dealt in on any commodities market, then the Manager shall, with the approval of the Trustee, in ascertaining the value of such commodity, have regard to the latest ascertainable price ruling or price officially fixed in respect of such Investment on such commodities market or (if there shall be more than one such commodities market) on such commodities market as the Manager shall consider appropriate;
  - (ii) if any such price as referred to in (i) above is not reasonably up-to-date (in the opinion of the Manager) or is not ascertainable at any relevant time, then the Manager shall, with the approval of the Trustee, in ascertaining the value of the relevant commodity, have regard to any certificate as to such Value provided by a firm or institution making a market in such Commodity;
  - (iii) the Value of any futures contract shall be:-

- (1) in the case of a futures contract for the sale of a commodity including a financial futures contract, the positive or negative amount produced by applying the following formula:

$$a - (b + c)$$

- (2) in the case of a futures contract for the purchase of a commodity including a financial futures contract, the positive or negative amount produced by applying the following formula:

$$b - (a + c)$$

where

a = the Contract Value of the relevant futures contract ("the relevant contract")

b = the amount determined by the Manager, with the approval of the Trustee, to be the Contract Value of such futures contract as would be required to be entered into by the Manager on behalf of the relevant Sub-Fund in order to close the relevant contract, such determination to be based on the latest available price or (if bid and offered quotations are made) the latest available middle market quotation on the relevant securities market in which the relevant contract was entered into by the Manager; and

c = the amount expended out of the relevant Sub-Fund 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.

- (3) notwithstanding paragraphs (1) and (2), the Value of any futures contract may be determined in such other manner as the Manager, with the approval of the Trustee, shall think fit; and

- (iv) if the provisions set out in (i) and (ii) above do not apply to any relevant commodity, then the Manager shall, with the approval of the Trustee, in ascertaining the value of such commodity, have regard to the same factors which would have determined the value of such commodity pursuant to (b) above, if such commodity were an unquoted investment.
- (e) the value of each unit, share or interest in any unlisted collective investment scheme which is valued as at the same day as the Sub-Fund 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 Sub-Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme (where available) or (if the same is not available) the last published bid price for such a unit, share or other interest, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (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 Sub-Fund 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.

### **Suspension of Calculation of Net Asset Value**

The Manager may, in exceptional circumstances, in consultation with the Trustee and having regard to the interests of Unitholders, declare a suspension of the determination of the Net Asset Value of any Sub-Fund or any class, and/or the issue and/or switching and/or redemption of Units of any class, and/or extend the period for the payment of redemption moneys to all persons who have redeemed Units of any class, for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any securities market or commodities market or futures exchange on which a substantial part of the investments of the relevant Sub-Fund is normally listed, quoted, traded or dealt or a breakdown in any of the means normally employed in ascertaining the prices of investments of the relevant Sub-Fund; or
- (b) for any other reason the value of any of the investments or other assets of the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) there is a breakdown in any of the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price or Redemption Price of the relevant class, or when for any other reason the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Unit, Subscription Price, or Redemption Price of the relevant class cannot be ascertained in a prompt or accurate manner; or
- (d) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the investments of the relevant Sub-Fund or it is not possible to do so without seriously prejudicing the interests of the relevant Unitholders; or

- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the investments of the relevant Sub-Fund or the issue or redemption of Units in the relevant Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (f) the business operations of the Manager, the Trustee or any agent, contractor or service provider of the Manager or the Trustee in relation to the operations of the Trust and/or the relevant Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes, or acts of God; or
- (g) the issue, redemption or transfer of Units of the relevant Sub-Fund or class would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

Any suspension declared above will take effect immediately on the declaration thereof and thereafter there will be no determination of the Net Asset Value of the relevant Sub-Fund, and/or the issue and/or switching and/or redemption of Units of the relevant Sub-Fund, and/or payment of redemption moneys in respect of the relevant Sub-Fund, as the case may be, until the Manager declares the suspension at an end. The suspension will terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension has ceased to exist, and (ii) no other condition under which a suspension is authorised exists.

If the Manager declares a suspension, the Manager shall, as soon as may be practicable after any such declaration notify the SFC of such suspension and procure the notice of the suspension be published immediately following the decision to suspend and at least once a month during the period of suspension on the Manager's website [www.pickerscapital.com](http://www.pickerscapital.com)\* .

### **Publication of Net Asset Value**

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of each Sub-Fund are available on each Dealing Day on the Manager's website [www.pickerscapital.com](http://www.pickerscapital.com)\* .

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

## **EXPENSES AND CHARGES**

*There are different levels of fees and expenses applicable to investing in each Sub-Fund as set out below. For information concerning actual fees payable in respect of each Sub-Fund, please refer to the relevant Appendix.*

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### **Subscription Fee**

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of any Sub-Fund of up to a maximum of 5% of the Subscription Price.

The subscription fee is payable in addition to the Subscription Price per Unit. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription fee (either generally or in any particular case) of a Sub-Fund.

#### **Redemption fee**

Under the Trust Deed, the Manager is entitled to impose a redemption fee on the redemption of Units of any Sub-Fund of up to a maximum of 5% of the Redemption Price payable in respect of such Units.

The redemption fee is deducted from the redemption proceeds payable to a Unitholder in respect of each Unit redeemed. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the redemption fee (either generally or in any particular case) of a Sub-Fund.

#### **Switching fee**

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 5% of the Redemption Price payable in respect of the Units of the Existing Sub-Fund being switched.

The switching fee is deducted from the amount realised from redemption of the Existing Sub-Fund and reinvested in the New Sub-Fund. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the switching fee (either generally or in any particular case) of a Sub-Fund.

### **Fees payable by the Trust**

The following fees and charges are payable out of the assets of each Sub-Fund:

#### **Management fee**

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 1.5% per annum of the Net Asset Value of the relevant Sub-Fund. The current management fee in respect of each Sub-Fund is set out in the relevant Appendix. The management fee will accrue as at each Valuation Day and will be payable monthly in arrears, unless otherwise provided in the relevant Appendix.

The Manager may share any fees, charges or amounts it is entitled to receive as Manager of the Sub-Fund with any persons who distribute or otherwise procure subscriptions to the Sub-Fund.

#### **Performance fee**

The Trust Deed provides that the Manager is entitled to charge a performance fee in respect of any class of Units, the maximum amount of which is equal to 15% per annum of the Net Asset Value of the relevant class of Units.

Details of any performance fee (if any) are set out in the relevant Appendix.

#### Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 0.5% per annum of the Net Asset Value of the Sub-Fund with a minimum monthly fee (if any) as specified in the relevant Appendix. The trustee fee will accrue as at each Valuation Day and will be payable monthly in arrears, unless otherwise provided in the relevant Appendix.

The Trustee will also be entitled to recover out-of-pocket expenses in performing its services together with certain transaction costs and processing fees.

#### Custodian fee

A fee is payable by each Sub-Fund to the Custodian. Please refer to the relevant Appendix for the fee payable by each Sub-Fund.

The Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

#### Other charges and expenses

Each Sub-Fund will bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated between all Sub-Funds pro-rata to the Net Asset Value of each Sub-Fund, unless otherwise determined by the Manager after consultation with the Trustee and/or the Auditors. Such costs include but are not limited to the costs of investing and realising the investments of a Sub-Fund, the fees and expenses of safekeeping of the assets of the Trust and each Sub-Fund, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of any administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any Explanatory Memorandum and preparation and printing of any financial statements.

Expenses arising out of any advertising or promotional activities in connection with any Sub-Fund authorised by the SFC will not be charged to the Trust or that Sub-Fund.

#### **Increase in fees**

Any increase in the redemption fee, switching fee, management fee, performance fee, trustee fee or registrar fee in respect of a Sub-Fund, (i) up to the relevant maximum level stated above, will only be implemented after giving one month's notice (or such period of notice as may be approved under the Code) to the affected Unitholders, and (ii) beyond the relevant maximum level, is subject to approval by the SFC and by extraordinary resolution of the affected Unitholders.

#### **Establishment costs**

The costs of establishing the Trust and the first Sub-Fund (i.e. the CFund – China Equity) including the preparation of the initial Explanatory Memorandum, costs of seeking authorization by the SFC and all initial legal and printing costs were approximately HKD1,500,000 and will be charged to the first Sub-Fund and amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

Where subsequent Sub-Funds under the Trust are established in the future, the Manager may, at its discretion, charge the costs of establishing such subsequent Sub-Funds to such subsequent Sub-Funds and amortise the same over a period as determined by the Manager after consultation with the auditors.

Investors should also note that under IFRS, establishment costs should be expensed as incurred and that amortisation of the expenses of establishing Sub-Funds is not in accordance with IFRS; however, the Manager has considered the impact of such non-compliance and has considered that it will not have a material impact on the financial statements of Sub-Funds. To the extent that the basis adopted by a Sub-Fund for subscription and redemption purposes deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with IFRS.

### **Cash rebates and soft commissions**

Neither the Manager, the investment adviser (if any) nor any of their Connected Persons receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager, the investment adviser (if any) and/or any of their Connected Persons reserve the right to effect transactions by or through the agency of another person with whom the Manager, the investment adviser (if any) and/or any of their Connected Persons has such an arrangement.

The Manager, the investment adviser (if any) and/or any of their Connected Persons further reserve the right to effect transactions by or through the agency of another person with whom the Manager, the investment adviser (if any) and/or any of their Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager, the investment adviser (if any) and/or any of their Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Trust (or the relevant Sub-Fund) as a whole and may contribute to an improvement in the performance of the Trust (or the relevant Sub-Fund) or of the Manager, the investment adviser (if any) and/or any of their Connected Persons in providing services to the Trust (or the relevant Sub-Fund) and for which no direct payment is made but instead the Manager, the investment adviser (if any) and/or any of their Connected Persons undertakes to place business with that party. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates. The availability of such soft commission arrangement must not be the sole or primary purpose for the Manager, the investment adviser or their Connected Persons (as the case may be) to transact with or through such broker or dealer. 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. Periodic disclosure in the form of a statement describing the Manager's soft dollar practices, including a description of the goods and services received by the Manager, will be made in the relevant Sub-Fund's annual report.

## **RISK FACTORS**

*The nature of each Sub-Fund's investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of any Sub-Fund will be achieved. This section sets out what the Manager believes are the general risks associated with investments in the Sub-Funds, but investors should note that the relevant Appendix may include additional risk factors which are specific or particular to a particular Sub-Fund. The risk factors below do not offer advice on the suitability of investing in any Sub-Fund. Prospective investors should carefully evaluate the merits and risks of an investment in a Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisers before making any investment in a Sub-Fund.*

### **General risks**

#### **Investment risk**

The purchase of a Unit in a Sub-Fund is not the same as placing funds on deposit with a bank or deposit-taking company. A Sub-Fund does not guarantee principal and the Manager has no obligation to redeem the Units at the offer value. A Sub-Fund does not have a constant Net Asset Value and is not subject to the supervision of the Hong Kong Monetary Authority.

Investors should be aware that investment in any Sub-Fund is subject to normal market fluctuations and other risks inherent in the underlying assets into which the Sub-Fund may invest. There can be no assurance that any appreciation in value of investments will occur. There is no assurance that the investment objectives of a Sub-Fund will actually be achieved, notwithstanding the efforts of the Manager since changes in political, financial, economic, social and/or legal conditions are not within the control of the Manager. Accordingly, there is a risk that investors may not recoup the original amount invested in a Sub-Fund or may lose a substantial part or all of their initial investment.

Whilst it is the intention of the Manager to implement strategies which are designed to achieve the investment objective, there can be no assurance that these strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques. Accordingly, there is a risk that investors may not recoup the original amount invested in a Sub-Fund or may lose a substantial part or all of their initial investment.

#### **Market risk**

The Net Asset Value of a Sub-Fund will change with changes in the market value of the investments of such Sub-Fund. The value of such investments, and consequently the price of Units of the relevant Sub-Fund, may go down as well as up.

#### **Concentration risk**

A Sub-Fund may invest only in a specific country, region, sector or type of investment with a particular focus. Although there are various investment restrictions with which the Manager has to comply when managing the investments of any Sub-Fund, the concentration of a Sub-Fund's investments may subject it to greater volatility than portfolios which comprise broad-based global investments.

#### **Emerging market risk**

A Sub-Fund may invest in emerging markets (including the PRC), which subjects the Sub-Fund to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk (including risks arising from settlement procedures), greater tax, economic and foreign

exchange risk, greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### Counterparty risk

A Sub-Fund will be subject to the risk of the inability of any counterparty (including any custodian(s)) to perform with respect to any investments or contracts purchased by the Sub-Fund. The Sub-Fund is also subject to the risk that counterparties may not have access to finance and/or assets at the relevant time and may fail to comply with their obligations under the relevant sale and repurchase agreements. Recent well-publicised weaknesses in certain financial institutions may be indicative of increased counterparty risk. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Sub-Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding, and the Manager could experience delays in liquidating the Sub-Fund's positions and incur significant losses (including the loss of that portion of the Sub-Fund's portfolio financed through such a transaction, a decline in value of its investment during the period in which the Manager seeks to enforce its rights, an inability to realise any gains on its investment during such period and fees and expenses incurred in enforcing its rights). Such Sub-Fund is likely to be an unsecured creditor in any such proceeding and may obtain only a limited recovery or may obtain no recovery in such circumstances.

#### Liquidity risk

A Sub-Fund may invest in instruments where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by a Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the relevant Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Net Asset Value of a Sub-Fund or prevent a Sub-Fund from being able to take advantage of other investment opportunities.

Liquidity risk also includes the risk that a Sub-Fund will not be able to pay redemption proceeds within the allowable time period because of unusual market conditions, an unusually high volume of redemption requests, or other uncontrollable factors. To meet redemption requests, a Sub-Fund may be forced to sell investments, at an unfavourable time and/or conditions.

#### Exchange rate risk

Assets of certain Sub-Funds may be denominated in currencies other than the base currencies of such Sub-Funds and the currency of some assets may not be freely convertible. Also, a class of units may be designated in a currency other than the base currencies of the Sub-Funds as well. These Sub-Funds may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant Sub-Fund are held and the base currency of such Sub-Fund. In addition, any class not denominated in the base currency of a Sub-Fund is exposed to possible adverse currency fluctuations between its currency of denomination and the relevant base currency.

#### Restricted markets risk

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

### Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects a Sub-Fund. Differences in laws between countries or jurisdictions may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of a Sub-Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including altering investments of or restructuring the relevant Sub-Fund.

### Suspension risk

Under the terms of the Trust Deed, in certain circumstances, the Manager may suspend the calculation of the Net Asset Value of Units in a Sub-Fund as well as suspend subscriptions and redemptions for Units in a Sub-Fund. Investors may not be able to subscribe or redeem when such a suspension is invoked. Investors may not be able to obtain a market value of their investment if the unit price is suspended.

Please refer to the section headed "Suspension of Calculation of Net Asset Value" for further information in this regard.

### Early termination risk

Under the Trust Deed, a Sub-Fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in "Termination of the Trust or any Sub-Fund" in the section entitled "GENERAL" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested. There will also be costs arising from early termination, which may be borne by Unitholders and in which case the Net Asset Value will be adversely affected. Any unamortised costs of the terminating Sub-Fund may also be charged as an expense in full against the assets of the relevant Sub-Fund.

### Valuation and accounting risk

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes, establishment costs are to be amortised over a period of five years, which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of Net Asset Value of the Sub-Funds materially. To the extent that the valuation or accounting basis adopted by any Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS.

### Cross class liability risk

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

### Cross Sub-Fund liability risk

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

#### Risk of no dividends

Whether the Manager will pay dividends on Units of a Sub-Fund is subject to the Sub-Fund's distribution policy. There is no guarantee that any dividends will be distributed nor will there be a target level of dividend payout. A high distribution yield does not imply a positive or high return.

The ability of a Sub-Fund to pay distributions also depends on dividends declared and paid by issuers of the securities which the Sub-Fund has invested and the level of fees and expenses payable by the Sub-Fund. The ability of the issuers of securities to make dividend payments and the level of dividends, if any, declared by the issuers of securities are based on numerous factors, including their current financial condition, general economic conditions and, where applicable, their dividend policies. There can be no assurance that such companies will be able to honour payment obligations, declare dividends or make other distributions.

#### Distributions payable out of capital or effectively out of capital risk

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of a Sub-Fund; or (ii) pay dividend out of gross income of a Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of such Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and 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 capital or effectively out of capital of a Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. Please refer to "Distribution policy" in the relevant Appendix.

#### Operational and settlement risks

Each Sub-Fund is subject to operational risks that may arise from any breaches by the Manager's investment management staff of the Manager's operational policies or technical failures of communication and trading systems. Whilst the Manager has in place internal control systems, operational guidelines and contingency procedures to reduce the chances of such operational risks, there is no guarantee events beyond the control of the Manager (such as unauthorised trading, trading errors or system errors) will not occur. The occurrence of any such events may adversely affect the value of a Sub-Fund.

#### Foreign Account Tax Compliance Act ("FATCA") risk

Subject to the discussion regarding the intergovernmental agreement ("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 U.S. and certain non-U.S. persons, such as the Trust and/or each Sub-Fund, including but not limited to payment of interest and dividends from securities of U.S. issuers, gross proceeds from the sale of such securities and foreign pass-thru payments. All such payments may be subject to FATCA withholding at a 30% rate (beginning on or after 1 July 2014 with respect to U.S. source dividends and interest, and beginning on or after 1 January 2019 with respect to gross proceeds), unless the recipient of the payment satisfies certain requirements intended to enable the U.S. Internal Revenue Service (the "IRS") to identify U.S. persons (within

the meaning of the IRS Code) with interests in such payments. The effective date for FATCA withholding on foreign pass-thru payments will be the later of 1 January 2019 or the date of the publication of final regulations defining the term foreign pass-thru payment.

To avoid such withholding on payments made to it, a Foreign Financial Institution (“FFI”), such as the Trust and/or each Sub-Fund (and, generally, other investment funds organised outside the U.S.), generally will be required to be subject to the terms of an agreement (an “FFI Agreement”) with the IRS under which it will agree to, amongst other things, identify its direct or indirect owners who are U.S. persons and report certain information concerning such U.S. person owners to the IRS. The FFI Agreement will also generally require that a FFI withhold U.S. tax at a rate of 30% on certain payments made to recalcitrant account holders and nonparticipating FFIs.

On 13 November 2014, Hong Kong has entered into an IGA for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under these “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Trust and/or each Sub-Fund) would be required to register with the IRS and comply with the terms of FFI Agreement. Otherwise the FFI will be subject to a 30% FATCA withholding tax on withholdable payments it receives. The Manager has obtained competent tax advice confirming that, to satisfy the FATCA requirements, the Trust will be registered with the IRS.

Under the IGA, FFIs in Hong Kong (such as the Trust and/or each Sub-Fund) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on withholdable payments made to non-consenting accounts (including accounts which the holders are U.S. persons and do not provide their U.S. taxpayer identification number or consent to the FFI to report their information to the IRS).

The Trust intends to satisfy the requirements imposed under FATCA, the IGA and the terms of the FFI Agreement to avoid any FATCA withholding tax. In particular, the Trust will register as a participating FFI (including a reporting Model 2 FFI). In the event that the Trust is not able to comply with the requirements imposed by FATCA, the IGA or the terms of the FFI Agreement, the Trust may be subject to FATCA withholding tax on withholdable payments. The Net Asset Value of the Trust or the relevant Sub-Fund may be adversely affected and the Trust or the relevant Sub-Fund may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which each Sub-Fund 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 each Sub-Fund.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Trust and/or the Sub-Fund, or a risk of the Trust or a Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Trust and the relevant Sub-Fund, reserves the right to, after completing due process to ascertain and confirm that the Unitholder has failed to cooperate and provide the required information, take any legal action against the Unitholder and/or pursue all remedies at its disposal including, but not limited to the extent permitted by applicable laws and regulations, (i) reporting the relevant information of such investor to the IRS; and/or (ii) withholding, deducting from such investor’s account, or otherwise collecting any such tax liability from such investor to the extent permitted by applicable laws and regulations. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds and in compliance with all applicable laws and regulations.

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

## Investment risks

### Risk of investing in equity securities

A Sub-Fund which invest directly or indirectly in equity securities are 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.

A Sub-Fund may invest in small and mid-capitalisation companies, which generally have greater earnings and capital growth potential than larger capitalised companies. However, such investments in small- or mid-cap companies may involve greater risks, such as limited product lines, markets and financial or managerial resources. In addition, securities of smaller companies may trade less frequently, in lower volumes and with less liquidity than more widely held securities, and the securities of such companies generally are subject to more abrupt or erratic price movements than more widely held or larger, more established companies. This, in turn, may undermine the value of the Sub-Fund's assets.

### Risk of investing in fixed income securities

*Interest rate risk:* A Sub-Fund which invest in fixed income securities are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, market value of fixed income securities tends to fall. Long-term fixed income securities in general are subject to higher interest rate risk than short-term fixed income securities.

*Volatility and liquidity risk:* The fixed income securities in certain markets may be subject to higher volatility and lower liquidity compared to more developed markets. 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 Sub-Fund may incur significant trading costs.

*Credit risk:* Investment in fixed income securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In general, fixed income securities that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the fixed income securities held by a Sub-Fund, that Sub-Fund's Net Asset Value will be adversely affected and investors may suffer a substantial loss as a result.

Fixed income securities are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income securities only after all secured claims have been satisfied in full. Each Sub-Fund holding such investments is therefore fully exposed to the credit risk of its counterparties as an unsecured creditor.

*Downgrading risk:* The credit rating of a fixed income security or its issuer may subsequently be downgraded. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Sub-Fund may or may not be able to dispose of the securities that are being downgraded.

*Risks of investing in below investment grade and unrated fixed income securities:* A Sub-Fund may invest in fixed income securities which (or the issuers of which) are rated below investment grade, or which are unrated. Such securities are generally subject to a higher degree of volatility and credit risk, a lower degree of liquidity and greater risk of loss of principal and interest than high-rated debt securities. The value of these instruments may also be more difficult to ascertain.

*Valuation risk:* Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to a Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments, including corporate

bonds and commercial papers, may become more difficult or impossible to ascertain. Valuation of a Sub-Fund's investments may involve uncertainties and judgemental determinations. If such valuations are incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.

*Credit ratings risk:* Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times.

#### Risk of investing in financial derivative instruments

A Sub-Fund may from time to time utilise financial derivative instruments for investment and/or hedging purposes. The use of derivatives exposes a Sub-Fund to additional risks, including: (a) volatility risk (derivatives can be highly volatile and expose investors to a high risk of loss); (b) leverage risk (as the low initial margin deposits normally required to establish a position in derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (c) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (d) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (e) counterparty risk (the Sub-Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (f) valuation risks (the pricing relationships between derivatives and the underlying instruments on which they are based may not conform to anticipated or historical correlation patterns; it may also be difficult to value derivatives, especially over-the-counter derivatives, so their prices may be volatile); (g) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (h) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of a Sub-Fund which uses financial derivative instruments. There is also no guarantee that the use of financial derivatives instruments for hedging purposes will be effective and the Sub-Fund may therefore be subject to substantial loss. There is no assurance that any derivative strategy used by a Sub-Fund will succeed.

There are also risks associated with management of collateral and re-investment of collateral. The value of any collateral received in respect of any financial derivative instrument transactions may be affected by market events. In the case of collateral assets which are listed securities, the listing of such securities may be suspended or revoked or the trading of such securities on the stock exchanges may be suspended, and during the period of suspension or upon revocation, it may take longer to realise the relevant collateral assets. In the case of collateral assets which are debt securities, the value of such securities will be dependent on the creditworthiness of the issuers or obligors in respect of the relevant collateral assets. In the event any issuer or obligor of such collateral assets is insolvent, the value of the collateral assets will be reduced substantially and may cause the relevant Sub-Fund's exposure to such counterparty to be under-collateralised. If the Sub-Fund reinvests cash collateral, it is subject to investment risk including the potential loss of principal.

#### Over-the-counter markets risk

Over-the-counter (OTC) markets are subject to less governmental regulation and supervision of transactions (in which many types of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets.

Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions.

In addition, certain instruments traded on the OTC markets can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

#### Hedging risk

The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result.

#### Securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions risk

The Trustee may, at the request of the Manager, enter into securities lending, repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of a Sub-Fund, which is subject to risks including:

- *Risk relating to securities lending transactions* - Securities lending involves the risk that the borrower may fail to return the securities in a timely manner or at all. As a result, a Sub-Fund engaged in securities lending transactions may suffer a loss and there may be a delay in recovering the lent securities. Any delay in the return of securities on loans may restrict the ability of a Sub-Fund to meet delivery or payment obligations arising from redemption requests and may trigger claims. The value of the collateral received as part of the lending transaction may also fall below the value of the securities lent out. Securities lending also entails operational risks such as settlement failures or delays in the settlement of instructions. Such failures or delays may restrict the ability of a Sub-Fund to meet delivery or payment obligations arising from redemption requests and may trigger claims.
- *Risk relating to repurchase transactions* - In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral, adverse market movements in the value of the collateral, intra-day increase in the value of the securities, a deterioration in the credit rating of the collateral issuer, or the illiquidity of the market in which the collateral is traded.
- *Risk relating to reverse repurchase transactions* – In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

#### Potential conflicts of interest

The Manager and its connected persons may act as the adviser or investment manager to other clients (including funds) now or in the future. They may additionally serve as consultants to partners or shareholders in other investment funds, companies and investment firms. Investors in a Sub-Fund should understand that certain investments may be appropriate for that Sub-Fund and also for other clients advised or managed by the Manager or its connected persons.

Investment decisions for the Sub-Fund and for such other clients are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, the current investment views of the Manager, availability of cash for investment, and the size of their positions generally.

The Manager or its connected persons may give advice and recommend securities to other managed accounts or investment funds, which may differ from advice given to, or securities recommended or bought for a Sub-Fund even though their investment objectives may be the same as or similar to that Sub-Fund's objectives.

The directors of the Manager, the Manager and their respective affiliates may also own Units in a Sub-Fund and hold, dispose or otherwise deal with such Units as well as hold or deal in any investments notwithstanding that similar investments may be held by or for the account of a Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with a Sub-Fund. Each will at all times have regard in such event to its obligations to such Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests. For more information, please refer to the section headed "Conflicts of Interest".

## **TAXATION**

*The following summary of Hong Kong and PRC taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the tax implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong as at the date of this Explanatory Memorandum. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Explanatory Memorandum. Furthermore, tax laws can be subject to different interpretations and no assurance can be given that relevant tax authorities will not take a contrary position to the tax treatments described below. Please also refer to the relevant Appendix for further information relating to taxation considerations specific to a particular Sub-Fund.*

### **Hong Kong Taxation**

#### **The Trust and Sub-Fund(s)**

##### *Profits Tax*

During such period as the Trust and each Sub-Fund are authorised as a collective investment scheme by the SFC pursuant to Section 104 of the SFO, under present law and practice in Hong Kong, profits of the Trust and each Sub-Fund are exempt from Hong Kong profits tax.

##### *Stamp Duty*

Pursuant to the remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty payable on the transfer of securities to the Trust and Sub-Fund(s) by an investor as consideration for an allotment of Units will be remitted or refunded. Similarly, any Hong Kong stamp duty payable on the transfer of securities by the Trust and Sub-Fund(s) to an investor upon redemption of Units will also be remitted or refunded.

No Hong Kong stamp duty is payable by the Trust and/or Sub-Fund(s) on an issue or redemption of Units. No Hong Kong stamp duty is payable where the sale or transfer of Units in the Trust and Sub-Fund(s) is effected by selling the relevant Units back to the Manager, who then either extinguish the Units or re-sell the Units to another person within two months thereof.

The sale and purchase of Hong Kong stock (if any) by the Trust and Sub-Fund(s) is generally subject to Hong Kong stamp duty at 0.13% on the higher of the consideration amount or market value, payable by both the buyer and the seller.

Hong Kong stamp duty payable on the transfer of shares or units of exchange traded funds listed on the Stock Exchange of Hong Kong (the “SEHK”) is waived.

#### **Unitholders**

##### *Profits Tax*

Distributions by the Trust or the Sub-Fund(s) should generally not be subject to Hong Kong profits tax in the hands of Unitholders in accordance with the prevailing practice of the Inland Revenue Department (as at the date of this Explanatory Memorandum). Hong Kong profits tax (which is currently charged at the rate of 16.5% for corporations and 15% for unincorporated businesses) will arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal

of the Units where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and such Units are not capital assets to the Unitholders.

There is no withholding tax on dividend distributions in Hong Kong.

### *Stamp Duty*

The Units fall within the definition of “Hong Kong stock” as defined in the Stamp Duty Ordinance. However, no Hong Kong stamp duty is payable by Unitholders in relation to an issue or redemption of Units where the redemption is effected by extinguishing the Units.

Other types of sales or purchases or transfers of Units by the Unitholders should be liable to Hong Kong stamp duty of 0.13% (payable by both the buyer and the seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HKD5 is currently payable on any instrument of transfer of Units.

Unitholders should seek their own tax advice on their tax position with regard to their investment in any Sub-Fund(s).

### **PRC Taxation**

By investing in securities (including A-shares, B-shares, H-shares and bonds) issued by PRC tax resident enterprises (i.e. companies incorporated in mainland China or incorporated elsewhere but with their effective management located in mainland China), irrespective of whether such securities are issued or distributed onshore (“onshore PRC securities”) or offshore (“offshore PRC securities”, and together with onshore PRC securities, the “PRC Securities”), a Sub-Fund may be subject to PRC taxes.

#### Corporate Income Tax (“CIT”)

Pursuant to the PRC CIT Law and its implementation rules, if a Sub-Fund is considered as a PRC tax resident enterprise, it will be subject to PRC CIT at 25% on its worldwide taxable income. If a Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business or a permanent establishment (collectively “PE”) in the PRC, the profits and gains in connection with or attributable to that PE would be subject to CIT at 25%.

The Manager intends to manage and operate each Sub-Fund in such a manner that the Sub-Fund should not be treated as tax resident enterprise of the PRC or non-tax resident enterprise with a PE in the PRC for PRC CIT purposes, although this cannot be guaranteed. If a Sub-Fund is non-tax resident in the PRC and has no PE in the PRC, the Sub-Fund would technically be subject to PRC withholding income tax (“WIT”) of 10% on PRC sourced income (e.g. dividend, interest or capital gains). The WIT rate may be reduced or waived by (a) relevant double tax agreements/arrangements, if applicable, subject to the relevant conditions being satisfied; and (b) specific relief under the PRC domestic tax law, if any, announced by the relevant authorities.

#### *Dividend income and interest income*

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-PRC tax resident enterprises without PE in the PRC are subject to CIT on a withholding basis, generally at a rate of 10%, to the extent it directly derives PRC-sourced passive income. PRC-sourced passive income (such as dividend income, interest income) may arise from investments in the PRC Securities. Accordingly, a Sub-Fund may be subject to WIT and/or other PRC taxes on any dividends, distributions and interest it receives from its investment in PRC Securities.

The State Taxation Administration (“STA”) issued circulars to clarify that dividends from A-shares, B-shares and H-shares distributed from profits of year 2008 and subsequent years should be

subject to WIT at 10% or a reduced rate pursuant to any applicable income tax treaty or arrangement. At present, a 10% PRC WIT is withheld at source in respect of dividend income on A-shares, B-shares and H-shares for non-resident enterprises (including a Sub-Fund) by the entity distributing such dividend income.

In addition, pursuant to the “Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) (“Notice No. 81”) and the “Notice about the tax policies related to the Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) (“Notice No. 127”) promulgated by the Ministry of Finance (the “MOF”), the STA and the China Securities Regulatory Commission (the “CSRC”) with effect from 17 November 2014 and 5 December 2016 respectively, dividends received by Hong Kong market investors (including a Sub-Fund) from A-share investment via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect respectively will be subject to WIT at 10% which will be withheld at source by the company distributing the dividend.

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

On 22 November 2018, the MOF and STA of the PRC jointly issued circular Caishui [2018] No. 108 (“Circular 108”) to address the tax issues relating to bond interest income received by foreign institutional investors from investments in the PRC bond market. Under Circular 108, non-PRC tax residents without a PE in the PRC (or having a PE in the PRC but the income so derived in the PRC is not effectively connected with such PE) will be temporarily exempt from CIT in respect of bond interest income received from 7 November 2018 to 6 November 2021. This is regardless of whether the non-PRC tax residents invest in the PRC bond market through Bond Connect and/or other regimes. The STA and MOF have issued Public Notice [2021] No.34 (“PN34”) in November 2021 to grant an extension on the WIT and VAT exemption in respect of bond interest received from 7 November 2021 to 31 December 2025.

Further, it is uncertain as to whether the temporary exemption of Circular 108 and PN34 applies to interest derived from bonds issued by PRC tax resident enterprises outside the PRC. The literal wording of Circular 108 and PN34 only mention the interest arising from investments in the PRC bond market. In practice, the PRC tax authorities have not strictly enforced the collection of WIT on interest derived from investments in bonds issued outside the PRC by PRC tax resident enterprises. It is uncertain as to whether the PRC tax authorities will change their enforcement practice in the future.

#### *Capital gains from trading of H-shares and B-shares*

Under the prevailing PRC CIT Law, a non-resident enterprise without a PE in the PRC should technically be subject to PRC WIT of 10% on gains derived from disposal of H-shares and B-shares, subject to reduced rates/exemption treatments (if any) under an applicable tax treaty between PRC and the jurisdiction where the non-resident enterprise resides.

However, as a matter of practice, the PRC tax authorities have not strictly enforced the collection of such PRC WIT on the trading of H-shares and B-shares via the stock exchanges.

The Manager has not made and currently has no intention to make provision in respect of WIT on gains on trading of B-shares or H-shares as the potential impact of the imposition of such tax liability is considered immaterial and the possibility of the imposition of such tax liability is considered low. 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.

### *Capital gains from trading of bonds issued by PRC tax resident enterprises*

Under the current PRC CIT law, there are no specific rules or regulations governing the taxation of the gains derived by non-PRC tax resident enterprises from the disposal of bonds issued by PRC tax resident enterprises (“PRC TREs”) (regardless of whether the bonds are issued in or outside the PRC). The tax treatment for investment in bonds issued by PRC tax resident enterprises is governed by the general taxing provisions of the PRC CIT Law. Under such general taxing provisions, a Sub-Fund would only be subject to 10% PRC WIT on its “PRC-sourced” income.

Pursuant to Article 7 of the detailed implementation rules (“DIR”) of the CIT Law, where the property concerned is a movable property, the source of income shall be determined according to the location of the enterprise, establishment or place which transfers the property. The PRC tax authorities have verbally indicated that the bonds issued by PRC TREs are movable property. In this case, the source of income shall be determined based on the location of the transferor (i.e., a Sub-Fund). Although there is no written confirmation issued by the PRC tax authorities to confirm the aforesaid PRC taxing principle for bonds issued by PRC TREs, in practice, the PRC tax authorities also have not strictly enforced the collection of PRC WIT in respect of capital gains derived by non-PRC TREs from the trading of PRC bonds. In this respect, it is generally expected that capital gains derived by a Sub-Fund from trading of bonds issued by PRC TREs could be argued as offshore sourced and thus not subject to PRC WIT. Furthermore, the PRC tax authorities have verbally indicated, on numerous occasions, that such gain is non-PRC sourced income and hence not subject to PRC WIT. However, there is no specific written tax regulation to confirm the same. In practice, the PRC tax authorities have not enforced the collection of PRC WIT in respect of gains derived by non-PRC tax resident enterprises from the trading of bonds issued by PRC tax resident enterprises.

Furthermore, Article 13.6 of the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (“PRC-HK tax treaty”) provides that any gains derived by a Hong Kong tax resident from the disposal of PRC properties that are not referred to in Articles 13.1 to 13.5 of the PRC-HK tax treaty shall be taxable only in Hong Kong. As the debt securities issued by the PRC tax resident enterprises are not referred to in Articles 13.1 to 13.5 of the PRC-HK tax treaty, capital gains derived by the Hong Kong tax resident from the disposal of debt securities issued by the PRC tax resident enterprises should technically be exempt from PRC WIT provided all the other relevant treaty conditions are satisfied (include obtaining a Hong Kong Tax Resident Certificate issued by the Hong Kong Inland Revenue Department for a Sub-Fund), subject to agreement by the PRC tax authorities.

### *Capital gains derived through Stock Connect*

Pursuant to Notice No. 81 and Notice No. 127, CIT will be temporarily exempted on capital gains derived by Hong Kong market investors (including a Sub-Fund) on the trading of A-shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect respectively. On the basis of Notice No. 81 and Notice No. 127, no provision in respect of WIT on the gross realised and unrealised capital gains derived by a Sub-Fund on trading of A-shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect will be made by the Manager on behalf of a Sub-Fund. Please note that the tax exemption granted under Notice No. 81 and Notice No. 127 is temporary. If there is any update on the tax rules applied to the Stock Connect in the future, the Manager will review and adjust the capital gain tax provisioning approach for the Stock Connect accordingly.

### *Capital gains derived through Access Products with exposure to A-shares*

A Sub-Fund may from time to time invest in Access Products in order to obtain exposure to A-shares. The issuer of the Access Products may implement hedge arrangements on the Access Products through Qualified Foreign Institutional Investor (“QFII”) and/or Renminbi Qualified Foreign Institutional Investor (“RQFII”) which would acquire or dispose of the underlying A-shares to which

the Access Products are linked. As the QFIIs/RQFIIs are the legal owners of the A-shares under PRC law with respect to such Access Products, any PRC taxes arising from the QFIIs'/RQFIIs' investments in such securities would be legally borne by the QFII/RQFII directly. Given that any PRC tax liabilities accruing to the QFII/RQFII in respect of the securities to which the Access Products are linked arise because of the trading activities of a Sub-Fund, such tax liabilities may ultimately be recharged to and borne by the relevant Sub-Fund and would likely have an economic effect on the value of the relevant Sub-Fund.

A foreign company such as a QFII/RQFII should be subject to 10% WIT on interest income, dividends and capital gains from PRC listed securities unless reduced or exempted under current PRC tax laws and regulations or relevant tax treaties. This is on the basis that the QFII/RQFII would be managed and operated such that it would not be considered a tax resident enterprise in the PRC and it would not be considered to have a PE in the PRC to which the aforesaid income is attached. A tax treaty (if any) between the PRC and the country in which the QFII/RQFII is a tax resident may further reduce the 10% WIT depending on the QFII's/RQFII's ability to meet the relevant requirements under the relevant tax treaty.

According to the "Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of PRC equity investment assets such as PRC stocks by QFII and RQFII" (Caishui [2014] No. 79) ("Notice No. 79") promulgated by the MOF, the STA and the CSRC on 14 November 2014, QFIIs and RQFIIs (without an establishment or place of business in the PRC or having an establishment in the PRC but the income so derived in China is not effectively connected with such establishment) will be temporarily exempt from CIT on gains derived from the transfer of PRC equity investment assets (including A-shares) effective from 17 November 2014. On the basis of Notice No. 79, it is not expected that the issuers of any Access Product would make any provision for potential tax liabilities and the Manager will not make any provision for the account of a Sub-Fund in respect of WIT on capital gains derived through Access Products with exposure to A-shares. Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the PRC authorities announce the expiration of such exemption, the issuers of Access Products may need to commence provisioning for future potential tax liability, which would in turn adversely affect the Net Asset Value of a Sub-Fund. Further, there is a possibility of the rules being changed and taxes being applied retrospectively which may result in a lower Net Asset Value as all tax liability will be passed by the issuer of the Access Products to a Sub-Fund. In such circumstance, the tax liabilities will only affect Units in issue of the relevant Sub-Fund at that time, and the existing Unitholders and subsequent Unitholders will have to bear a disproportionately higher amount of tax liabilities compared to that borne by persons who have redeemed their Units in the relevant Sub-Fund before the taxes were applied.

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. If it transpires that a Sub-Fund 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 Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue of the relevant Sub-Fund at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the relevant Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the relevant Sub-Fund.

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.

#### Value-added Tax ("VAT") and other surtaxes

##### *Investment in A-shares, B-shares and H-shares*

Pursuant to Caishui [2016] No.36 ("Circular 36"), with effect from 1 May 2016, gains derived from the trading of PRC marketable securities would generally be subject to VAT at 6%.

However, based on Circular 36 and Notice No. 127, gains realised by Hong Kong market investors from the trading of A-shares through the Shanghai-Hong Kong Stock Connect and through the Shenzhen-Hong Kong Stock Connect are exempt from VAT since 1 May 2016.

There is no clear rule on whether there is VAT exemption on capital gains derived from trading of B-shares by foreign enterprises (including a Sub-Fund). Thus, there may be VAT imposed on a Sub-Fund for trading of B-shares in the PRC. However, as a matter of practice, the PRC tax authorities have not strictly enforced the collection of such PRC VAT on the trading of B-shares via the stock exchanges.

The trading of H-shares and other kinds of offshore shares should not be subject to VAT provided that both the seller and buyer are non-PRC residents and the purchase and disposal are often concluded and completed outside the PRC.

Dividends from A-shares, B-shares and H-shares are not within the taxable scope of VAT.

#### *Investments in bonds issued by PRC tax resident enterprises*

##### (a) Interest income

Circular 108 stipulates that non-PRC tax residents are temporarily exempt from VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the PRC bond market. This is regardless of whether the non-PRC tax residents invest in the PRC bond market through Bond Connect and/or other regimes. Furthermore, pursuant to PN34, the aforesaid WIT and VAT exemption is extended to 31 December 2025.

However, it is uncertain as to whether the temporary VAT exemption of Circular 108 and PN34 applies to interest received from bonds issued by PRC tax resident enterprises outside the PRC. The literal wording of Circular 108 and PN34 only mention the interest arising from investments in the PRC bond market. In practice, the PRC tax authorities have not strictly enforced the collection of VAT on interest derived from investments in bonds issued outside the PRC by PRC tax resident enterprises. It is uncertain as to whether the PRC tax authorities will change their enforcement practice in the future.

##### (b) Capital gains

Pursuant to Caishui [2016] No. 70 ("Circular 70"), capital gains derived trading of RMB denominated debt securities in the China Interbank Bond Market by the foreign institutional investors approved by the People's Bank of China should be exempt from PRC VAT.

However, there is no specific circular exempting non-PRC tax resident enterprises from VAT on gains derived from the trading of bonds issued by PRC tax resident enterprises via Bond Connect. With that said, by making reference to the above circular and other related prevailing tax regulations for the VAT exemption granted to foreign institutional investors for the capital gains derived from trading of PRC debt securities, it is anticipated that capital gains derived by a Sub-Fund from the trading of RMB denominated bonds via Bond Connect should also be exempted from PRC VAT. In practice, the PRC tax authorities have not strictly enforced the collection of VAT on such gains.

Pursuant to Circular 36, gains derived by a Sub-Fund from trading of bonds issued outside the PRC by PRC tax resident enterprises are arguably not subject to PRC VAT if both the seller and purchaser are outside the PRC and the transactions are completed outside the PRC.

If VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax (“UCMT”), Education Surcharge (“ES”) and Local Education Surcharge (“LES”)) that would amount to as high as 12% of VAT payable. However, pursuant to the newly issued UCMT Law and Public Notice [2021] No.28 jointly issued by the MOF and STA, effective from 1 September 2021, no UCMT, ES and LES would be levied on the VAT paid for the service provisions and sale of intangible assets in China by overseas parties to PRC parties. However, in practice, it is uncertain whether the exemption would apply to income from bonds invested by foreign investors and the implementation of the exemption may vary depending on the local practice.

### Stamp Duty (“SD”)

SD is levied on certain taxable documents executed or used in the PRC, such as documentation effecting the transfer of equity interests in Chinese companies, the purchase and sale of A-shares and B-shares, the purchase and sale of goods, contract documents issued for process contracting, construction contracting, property leasing, and other documents listed in the SD Law.

Currently, SD on A-shares (including those invested via Stock Connect) and B-shares transactions is only imposed on the seller but not on the purchaser, at the tax rate of 0.1% of the total sales value.

It is unclear whether PRC SD that is imposed on the transfer of shares of PRC companies under the SD Laws would similarly apply to the acquisition and disposal of H-shares by non-PRC investors outside the PRC. That said, PRC tax authorities have not enforced the collection of PRC SD for trading of H-shares in practice.

According to Notice No. 127, the borrowing and return of listed shares in relation to shares guarantee and short-selling by Hong Kong market investors through the Stock Connect are exempt from SD from 5 December 2016.

### General

Various tax reform policies have been implemented by the Mainland China government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is no assurance that current tax exemptions or incentives will not be abolished in the future. Furthermore, there is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. A Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in a Sub-Fund. Investors may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investment in a Sub-Fund.

## **GENERAL**

### **Reports and accounts**

The Trust's and each Sub-Fund's financial year end is on 31 December in each year. The first financial year end of the Trust is 31 December 2019. Audited annual financial reports drawn up in accordance with IFRS and unaudited interim financial reports will be prepared for each financial year. Financial reports will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of audited annual financial reports, and within two months after 30 June in each year in the case of unaudited interim financial reports. Once issued the financial reports will be available in softcopy from the website [www.pickerscapital.com](http://www.pickerscapital.com)\* and in hardcopy for inspection at the Manager's office free of charge during normal working hours (hardcopies are also available for Unitholders to take away free of charge upon request).

At least one month's prior notice will be provided to Unitholders if there will be any change to the mode of distribution of financial reports described above.

### **Distribution policy**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends in respect of any Sub-Fund, details of which are set out in the relevant Appendix.

Where distributions will be made, the Manager will adopt a distribution policy for each Sub-Fund at its discretion as the Manager considers appropriate having regard to the Sub-Fund's net income, fees and costs. The distribution policy for each Sub-Fund (including the currency of such distribution) will be set out in the relevant Appendix. Distributions are dependent on the payment of dividends or distributions of the underlying investments held by the relevant Sub-Fund, which will in turn depend on factors beyond the control of the Manager, including general economic conditions and the financial position and dividend or distribution policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions. Furthermore, the dividend policy of each Sub-Fund is not representative of the dividend policies of any of the respective underlying investments of the Sub-Fund.

Unless otherwise provided in the relevant Appendix, dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

Distributions (if any) declared in respect of a Class will be paid among the Unitholders of that Class rateably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the relevant Class Currency.

Unitholders may specify on the account opening form 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 HKD100 (or its equivalent currency as the case may be). 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

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

specified as aforesaid, the distribution to which the Unitholder is entitled will be automatically reinvested in further Units to be issued at the prevailing Subscription Price of the relevant Class applicable on the distribution payment date.

In circumstances where the net distributable income of a Class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund's fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and 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 capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant Class.

Where payment of dividends is being made out of capital or effectively out of capital, the compositions of the dividends (i.e. the relative amounts paid from net distributable income and capital) for the last 12 months (a rolling 12-month period starting from the date on which payment of dividends is being made out of capital or effectively out of capital) will be available from the Manager on request and on the Manager's website [www.pickerscapital.com](http://www.pickerscapital.com)\*.

The cash distribution will be paid to Unitholders at their own risk and expense by telegraphic transfer normally within one calendar month after the declaration of such distribution by the Manager.

### **Trust Deed**

The Trust was established as an umbrella unit trust under the laws of Hong Kong by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust or the relevant Sub-Fund(s) and their relief from liability in certain circumstances, subject to the proviso that nothing in any of the provisions of the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### **Modification of Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that the Trustee and the Manager have certified in writing that such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any liability to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant Sub-Fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases involving any material changes, modifications, alterations and additions require the sanction of an extraordinary resolution of the Unitholders affected. Where approval is required, the Manager must also seek the SFC's prior approval to such amendments to the Trust Deed.

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

The Manager will notify affected Unitholders of the amendments in advance of such amendments if such notification is required under the Code.

### **Meetings of Unitholders**

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue. In the case of an adjourned meeting of which separate notice will be given, such Unitholders present in person or by proxy will form a quorum. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the Unitholder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding Units of different classes where only the interests of Unitholders of such class are affected.

### **Transfer of Units**

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee, provided that, unless otherwise agreed by the Manager, no transfer of part of a holding of Units of any class shall be registered if as a result either the transferor or the transferee's holding of Units will be less than the minimum holding for the relevant class specified in the relevant Appendix. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units. The Trustee is entitled to require from the transferor and/or the transferee the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any expenses incurred by the Trustee in connection therewith. The transfer instrument is expected to have been properly signed or executed, dated and stamped with sufficient stamp duty before the instruments is passed to the Registrar.

Transfers of Units are subject to prior consent of the Manager and the Manager may instruct the Trustee not to enter the name of a transferee in the Register or recognise a transfer of any Units if either the Manager or the Trustee believes that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

### **Termination of the Trust or any Sub-Fund**

The Trust shall continue until it is terminated in one of the ways set out below.

The Trust may be terminated by the Trustee if: (a) the Manager goes into liquidation or a receiver is appointed and not discharged within 60 days; (b) in the opinion of the Trustee, the Manager is incapable of performing its duties satisfactorily; (c) the Manager has failed to perform its duties satisfactorily or has, in the opinion of the Trustee, done something calculated to bring the Trust into disrepute or that is harmful to the interests of Unitholders; (d) a law is passed that renders it illegal or, in the opinion of the Trustee and the Manager, impracticable or inadvisable to continue the Trust; (e) the Trustee is unable to find an acceptable person to replace the Manager within 30 days after the removal of the Manager, or the person nominated shall fail to be approved by extraordinary resolution; or (f) if the Trustee notifies the Manager in writing of its intention to retire and no suitable

person willing to act as trustee has been identified by the Manager within 60 days of the Trustee's notice.

The Trustee may, in its absolute discretion, by notice in writing to the Manager, terminate a Sub-Fund if: (i) the Trustee forms the opinion for good and sufficient reason that the Manager is incapable of performing its duties satisfactorily in respect of the relevant Sub-Fund; (ii) the Trustee forms the opinion for good and sufficient reason that the Manager has failed to perform its duties satisfactorily in respect of the relevant Sub-Fund or has done something calculated to bring the relevant Sub-Fund into disrepute or that is harmful to the interests of Unitholders of the relevant Sub-Funds; or (iii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the relevant Sub-Fund and which renders the relevant Sub-Fund illegal or in the good faith opinion of the Trustee makes it impracticable or inadvisable to continue the relevant Sub-Fund.

The Manager may terminate the Trust if: (a) after one year from the date of the Trust Deed, the aggregate Net Asset Value of all the Units in each Sub-Fund is less than HKD100 million; (b) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Trust and which renders the Trust illegal or in the good faith opinion of the Manager, makes it impracticable or inadvisable to continue the Trust; or (c) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed.

The Manager may, in its absolute discretion, by notice in writing to the Trustee, terminate a Sub-Fund if: (a) after one year from the date of establishment of the Sub-Fund, the aggregate Net Asset Value of all the Units in the relevant Sub-Fund is less than HKD100 million; (b) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the relevant Sub-Fund and which renders the relevant Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue that Sub-Fund; (c) (if the Sub-Fund is an index tracking fund) the Sub-Fund's underlying index is no longer available for benchmarking; or (d) the Manager is unable to implement its investment strategy. Further, the Unitholders may at any time authorise termination of the Trust or the relevant Sub-Funds by extraordinary resolution.

Prior notice of termination of the Trust or any Sub-Fund will be provided to Unitholders, the notice period of which will be determined in accordance with the Code. Such notice to Unitholders is subject to the SFC's prior approval. The notice will contain the reasons for the termination, the consequences to Unitholders of terminating the Trust or the Sub-Funds and the alternatives available to them, and any other information required by the Code.

Upon termination of the Trust or a Sub-Fund, the Trustee and the Manager will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Trust or the relevant Sub-Fund (as the case may be). Thereafter, the Trustee will distribute to the Unitholders, in proportion to the Units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, charges, expenses, claims and demands properly incurred, made or apprehended by the Trustee or the Manager. Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve months from the date upon which the same were payable be paid into court subject to the right of the Manager (subject to the Trustee's consent) and/or the Trustee to deduct therefrom any expenses it may incur in making such payment. Please refer to the Trust Deed for further details.

### **Documents available for inspection**

Copies of the following documents are available for inspection free of charge at the offices of the Manager and copies thereof (other than (b) which will be free of charge) may be obtained from the Manager at a cost of HKD150 (or equivalent in other currency) per set of copy documents:

- (a) Trust Deed; and

- (b) The most recent annual report and accounts of the Trust and the Sub-Fund (if any) and the most recent interim report of the Trust and the Sub-Fund (if any).

### **Hong Kong requirements regarding tax reporting: 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 ("AEOI"). The Ordinance requires financial institutions ("FIs") in Hong Kong to collect Unitholder's certain information and report annually the required information of the Unitholders who are a tax resident in jurisdictions which signed a Competent Authority Agreement ("CAA") with Hong Kong (collectively, "Reportable Jurisdictions") to the Hong Kong Inland Revenue Department ("IRD") for the purpose of AEOI. In general, the information reported to the IRD may be exchanged with the Reportable Jurisdictions which Hong Kong has a CAA in force; however, the Trust, the relevant Sub-Fund and/or its agents may further collect information relating to residents of jurisdictions other than the Reportable Jurisdictions.

The Trust and each Sub-Fund are required to comply with the requirements of the Ordinance, which means that the Trust, each Sub-Fund and/or its agents shall collect and provide to the IRD the required information relating to Unitholders who are tax resident in the Reportable Jurisdictions.

The Ordinance requires the Trust and/or its agents to, amongst other things: (i) register the Trust 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 competent authorities of the relevant Reportable Jurisdictions with which Hong Kong has a CAA in force. Broadly, the Ordinance requires that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a Reportable Jurisdiction; and (ii) Controlling Persons (as defined in the Ordinance) of a Unitholder that is not a natural person 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, tax residence(ies), tax identification number(s) (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with competent authorities in the relevant Reportable Jurisdictions with which Hong Kong has a CAA in force.

By investing in a Sub-Fund and/or continuing to invest in a Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Trust, the relevant Sub-Fund and/or its agents in order for the Trust and the Sub-Fund to comply with the Ordinance. The Unitholder's information (and information on Controlling Persons of a Unitholder that are not natural persons), if reportable, may be transmitted by the IRD to competent authorities of the Reportable Jurisdictions.

Each Unitholder and prospective investor should consult its own professional adviser(s) on the administrative and substantive implications of the Ordinance on its current or proposed investment in the Sub-Funds.

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

Each Unitholder (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 or relevant Sub-Fund (a) to prevent 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 or relevant Sub-Fund receives payments and/or (b) to satisfy 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, whenever there is a change in circumstances, or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including any law, rule and requirement relating to AEOI) and reporting obligations that may be imposed by future legislation.

### **Power to Disclose Information to Authorities**

Subject to applicable laws and regulations in Hong Kong, the Trust, the Trustee, 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 IRS and the IRD), certain information in relation to an Unitholder and controlling persons of certain Unitholder, including but not limited to the Unitholder's name, address, jurisdiction of birth, tax residence(ies), tax identification number(s) (if any), social security number(s) (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, the Sub-Fund, the Manager or the Trustee 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 the Ordinance), regulation or agreement under FATCA. Investors should also refer to "Foreign Account Tax Compliance Act risks" in the section headed "RISK FACTORS".

### **Personal Data**

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) (the "PDPO"), the Trustee, the Manager, or any of their respective delegates (each a "Data User") may collect, hold and use personal data of individual investors in the relevant Sub-Fund 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 all other 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 unauthorised or accidental access, processing, erasure or other use.

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

As part of the Trustee's and the Manager's responsibility to prevent money laundering, they and/or their respective delegates or agents may require detailed verification of a prospective investor's identity and the source of the payment of application monies. Depending on the circumstances of each application, a detailed verification may not be required where: (a) the prospective investor makes payment from an account in the prospective investor's name at a recognised financial institution; (b) the prospective investor is regulated by a recognised regulatory authority; or (c) the application is made through a recognised financial intermediary. The exceptions will only apply if the financial institution, regulatory authority or intermediary referred to above is within a country recognised by Hong Kong as having sufficient anti-money laundering regulations.

The Trustee, the Manager and their respective delegates and agents each reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee, the Manager or any of their respective delegates or agents may refuse to accept the application and return the application monies (without interest and net of expenses) relating to such application.

The Trustee, the Manager and their respective delegates and agents each also reserves the right to refuse to make any redemption payment to a Unitholder if the Trustee, the Manager and/or any of their respective delegates and agents suspect or are advised that the payment of redemption proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered

necessary or appropriate to ensure the compliance by the Trust or the relevant Sub-Fund(s) or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

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

### **Liquidity Risk Management**

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Sub-Funds and to ensure that the liquidity profile of the investments of the relevant Sub-Fund will facilitate compliance with such Sub-Fund's obligation to meet redemption requests. Such policy, combined with the liquidity risk 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 liquidity risk monitoring function of the Manager is carried out by designated staff responsible for risk management who are functionally independent from the day-to-day portfolio investment staff of the Manager.

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 Sub-Funds. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by each Sub-Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "REDEMPTION OF UNITS", and will facilitate compliance with each Sub-Fund'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 Sub-Funds under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may limit the number of Units of all classes of a Sub-Fund redeemed on any Dealing Day to Units representing 10 % (or such higher percentage as the Manager may determine in any particular case) of the total Net Asset Value or the total number of Units of all classes of such Sub-Fund in issue (subject to the conditions under the heading entitled "Restrictions on redemption" in the section headed "REDEMPTION OF UNITS").

### **Conflicts of Interest**

The Manager and the Trustee (and any of their affiliates) (each a "relevant party") may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any relevant party may, in the course of business, have potential conflicts of interest with the Trust or any Sub-Fund. Each relevant party will, at all times, have regard in such event to its obligations to the Trust and the relevant Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly. Each relevant party shall be entitled to retain for its own use and benefit all fees and other monies payable thereby and shall not be deemed to be affected with notice of or to be under any duty to disclose to the Trust, any Sub-Fund, any Unitholder or any other relevant party any fact or thing which comes to the notice of the relevant party in the course of its rendering services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Trust Deed. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing

procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each Sub-Fund, are treated fairly.

It is expected that transactions for any Sub-Fund may be carried out with or through Connected Persons of the Manager. The Manager will ensure that all transactions carried out by or on behalf of each Sub-Fund will be in compliance with all applicable laws and regulations. In particular, any transactions between a Sub-Fund and the Manager or its Connected Persons as principal may only be made with the prior written consent of the Trustee. The Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on arm's length terms and are consistent with applicable best execution standards. The fee or commission payable to any such Connected Persons in respect of a transaction will not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature. The Manager will monitor all such transactions to ensure compliance with its obligations. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the relevant Sub-Fund's annual report.

### **Cross-trades**

Cross-trades between a Sub-Fund and other funds managed by the Manager or its affiliates may be undertaken when the Manager considers that, as part of its portfolio management, such cross-trades would be in the best interests of the Unitholders to achieve the investment objective and policy of the relevant Sub-Fund. By conducting cross-trades, the Manager may achieve trading efficiencies and savings for the benefit of the Unitholders.

In conducting transactions, the Manager will ensure that the trades are executed on arm's length terms at current market value and the reason for such trades shall be documented prior to execution, in accordance with the SFC's Fund Manager Code of Conduct.

### **Websites**

The offer of the Units is made solely on the basis of information contained in this Explanatory Memorandum. This Explanatory Memorandum may refer to information and materials included in websites, which may be updated or changed from time to time without any notice. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC. Investors should exercise an appropriate degree of caution when assessing the value of such information and materials.

## **APPENDIX: CFUND – CHINA EQUITY**

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the CFund – China Equity (the “Sub-Fund”), a sub-fund of the Trust. All references in this Appendix to the Sub-Fund are to CFund – China Equity. Unless otherwise defined in this Appendix, terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.*

### **Investment Objective**

The investment objective of the Sub-Fund is to provide long-term capital appreciation by primarily investing in listed equities with a China focus. There can be no assurance that the Sub-Fund will achieve its investment objective.

### **Investment Strategy**

The Sub-Fund seeks to achieve its objective primarily through exposure to companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue or profits from business related to China. The Sub-Fund makes investments into companies that, in the Manager’s opinion, have been undervalued by the market. There is no restriction on market capitalisations or industries in relation to the equity securities in which the Sub-Fund may invest.

#### *Principal investments*

Under normal circumstances, the asset allocation strategy is that at least 70% of the Sub-Fund’s Net Asset Value will be invested in stocks of companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue or profits from business related to China (including but not limited to investment in depositary receipts such as American Depositary Receipts), and, subject to an overall upper limit on onshore PRC exposure of 20% of the Sub-Fund’s Net Asset Value, up to 20% of the Sub-Fund’s Net Asset Value will be invested directly or indirectly in stocks listed in Shanghai (including stocks listed on the Sci-Tech Innovation Board of the SSE (the “STAR Board”)) and/or Shenzhen (including stocks in the ChiNext market and/or stocks listed on the Small and Medium Enterprise Board (the “SME Board”)).

Exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure (such as through investing in exchange traded funds (“ETFs”) and/or other funds that invest in the relevant PRC listed shares and/or derivative instruments such as swaps), and direct exposure (in the case of A-shares, such as via the Shanghai Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (together, the “Stock Connect”), and/or other relevant programmes when such other relevant programmes become available). Investments in ETFs by the Sub-Fund are considered and treated as listed securities for the purposes of and subject to the requirements in Chapters 7.1, 7.1A and 7.2 of the Code.

#### *Ancillary investments*

The Sub-Fund may invest up to 30% of its Net Asset Value in bonds, including fixed income securities that are investment grade, below investment grade (i.e. below BBB-/Baa3 by an internationally recognised credit rating agency, such as Standard & Poor’s, Moody’s and/or Fitch) and unrated (meaning neither the security itself nor its issuer has a credit rating) and convertible bonds. Exposure to bonds may also be obtained indirectly through investing in ETFs that invest in bonds.

Subject to an overall upper limit on onshore PRC exposure of 20% of the Sub-Fund’s Net Asset Value, the Sub-Fund may invest up to 20% of its Net Asset Value in onshore China debt securities via the Bond Connect (as defined below) and may invest up to 10% of its Net Asset Value in urban investment bonds (城投債). Urban investment bonds are debt instruments issued by local

government financing vehicles ("LGFVs") in the China listed bond and interbank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.

#### *Use of Derivatives*

The Sub-Fund may use derivatives for hedging and/or investment purposes provided that such investments shall comply with the investment restrictions set out in Chapter 7 of the Code. (notwithstanding this, derivatives will not be extensively or primarily used for investment purposes). The derivative instruments used by the Sub-Fund for investment purposes will broadly fall under three categories: (i) participatory notes, which do not create any leverage and are used primarily for accessing the A-share market, B-share market and Taiwan; (ii) exchange-traded or over-the-counter futures contracts and options, which create leverage and are used primarily for gaining market exposure in a timely and cost effective manner (e.g. during times of large subscription inflow or in the event of sharp market movements); and (iii) swaps that do not create leverage and used primarily for market access such as the A-Share market, B-Share market and Taiwan. Consistent with the investment restrictions applicable to the Sub-Fund, the Sub-Fund's net derivative exposure may be up to 50% of the its Net Asset Value. The Sub-Fund may take short positions through derivatives for hedging purposes only.

#### *Securities lending transactions*

The Manager may enter into securities lending transactions on behalf of the Sub-Fund for up to 10% of the Sub-Fund's Net Asset Value at any one time and is able to recall the securities lent out at any time. All such transactions will only be entered into with institutions of appropriate financial standing which are acceptable to the Manager. The consideration given for the relevant securities must be at least equal to the value of such securities on daily marked to market values. As part of its securities lending transactions, the Sub-Fund will receive as collateral sufficient cash and/or liquid securities, in such amount and in such form as prescribed by the Manager from time to time. The Trustee will be responsible for the safekeeping of such collateral received and held in custody. All collateral shall to marked to market daily. If the value of the collateral falls below the percentage of the value of the securities lent specified under the relevant security lending agreement, the Manager will call for additional collateral from the borrower. Cash collateral received may only be reinvested in short term deposits, high quality money market instruments and money market funds. The Sub-Fund will not engage in any reinvestment of non-cash collateral received.

The valuation of the securities lent will be disclosed in the annual audited accounts and interim half yearly unaudited reports of the Sub-Fund. Any incremental income earned from any securities lending arrangement may be split between the relevant Sub-Fund and any security lending agent in such proportion as the Manager may determine in each case, provided that the amount payable to any security lending agent should not exceed 30% of such incremental income. The Manager will not enter into any repurchase or reverse-repurchase transactions or other similar over-the-counter transactions in respect of the Sub-Fund.

#### *Others*

The Sub-Fund's portfolio may also temporarily include cash and cash equivalents, up to 100% of its Net Asset Value, under exceptional circumstances (such as in the event of market crashes, major crisis or to mitigate the risk of potential sharp reversals and fall in the markets) for cash flow management.

No waivers from the investment restrictions set out in the main body of this Explanatory Memorandum have been sought or granted by the SFC.

#### **Stock Connect**

The Stock Connect is a securities trading and clearing links programme developed by the Hong

Kong Exchanges and Clearing Limited (the “HKEx”), the Shanghai Stock Exchange (the “SSE”), the Shenzhen Stock Exchange (the “SZSE”) and the China Securities Depository and Clearing Co., Ltd. (the “CSDCC”), which provides mutual stock market access between mainland China and Hong Kong. It comprises the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Each of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect comprises a northbound trading link (the “Northbound Trading Link”) for investment in PRC shares (“Northbound Trading”) and a southbound trading link (the “Southbound Trading Link”) for investment in Hong Kong shares (“Southbound Trading”). Under the Northbound Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and securities trading service companies (in Shanghai and in Qianhai Shenzhen respectively) established by the SEHK, may trade eligible shares listed on the SSE or the SZSE by routing orders to the SSE or SZSE (as the case may be). Under the Southbound Trading Link, eligible investors may be able to place orders to trade eligible shares listed on the SEHK by routing orders to the SEHK.

#### *Eligible securities*

Currently, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the “SSE Securities”). SSE Securities include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-shares listed on the SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are included in the “risk alert board”.

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

- (a) SZSE-listed shares which are not traded in RMB; and
- (b) SZSE-listed shares which are included in the “risk alert board”.

At the initial stage of Shenzhen-Hong Kong Stock Connect, shares listed on the ChiNext Board of SZSE under Northbound Trading Link will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

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

#### *Trading day*

Investors (including the Sub-Fund) can only trade on the SSE market and the SZSE market on days where both the Mainland China markets 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 Stock Connect is subject to a daily quota (“Daily Quota”) for each of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which is separate for Northbound and Southbound Trading. The Daily Quota limits the maximum net buy value of

cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Sub-Fund and are utilised on a first-come-first-serve basis. The SEHK monitors the quota and publishes the remaining balance of the Northbound Trading Daily Quota at scheduled times on the HKEx's website. Trading under the Stock Connect will be subject to rules and regulations issued from time to time and therefore the Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

#### *Settlement and custody*

The Hong Kong Securities Clearing Company Limited (the "HKSCC"), a wholly-owned subsidiary of the HKEx, is 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. The SSE Securities and SZSE Securities traded through the Stock Connect are issued in scripless form, so investors will not hold any SSE Securities and SZSE Securities in physical form. SSE Securities or SZSE Securities acquired by an investor through Northbound Trading is maintained with such investor's broker's or custodian's stock account with the Central Clearing and Settlement System ("CCASS") operated by the HKSCC.

#### *Corporate actions and shareholders' meetings*

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities or SZSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE or SZSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities or SZSE Securities. The HKSCC monitors the corporate actions affecting SSE Securities or SZSE Securities and keeps the relevant 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 their annual general meeting / extraordinary general meeting information 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.

#### *Currency*

Hong Kong and overseas investors (including the Sub-Fund) can trade and settle SSE Securities and SZSE Securities in RMB only.

#### *Trading fees*

In addition to paying trading fees and stamp duties in connection with A-share trading, the Sub-Fund may be subject to certain other fees which are yet to be determined by the relevant authorities. Under the Stock Connect, Hong Kong and overseas investors will be subject to the fees and levies imposed by SSE, SZSE, CSDCC, HKSCC or the relevant Mainland Chinese authority when they trade and settle SSE Securities and SZSE Securities.

#### *Coverage of 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. Examples of default are insolvency, in bankruptcy or winding up, breach of trust, defalcation, fraud, or misfeasance.

Starting from 1 January 2020, defaults in relation to Northbound Trading will be covered by the Hong Kong's Investor Compensation Fund. Therefore any investments in SSE Securities or SZSE Securities done by the Sub-Fund through Northbound Trading under the Stock Connect will be covered by Hong Kong's Investor Compensation Fund.

On the other hand, according to the Measures for the Administration of Securities Investor Protection Fund 《證券投資者保護基金管理辦法》, the functions of China Securities Investor Protection Fund (“CSIPF”, 中國投資者保護基金) include “indemnifying creditors as required by China’s relevant policies in case a securities company is subjected to compulsory regulatory measures including dissolution, closure, bankruptcy and administrative takeover by the CSRC and custodian operation” or “other functions approved by the State Council”. However, since Northbound Trading is carried out through securities brokers in Hong Kong and not Mainland China brokers, the CSIPF also does not extend to protect defaults experienced on Northbound Trading.

#### *Foreign shareholding restrictions*

Pursuant to relevant rules and regulations, foreign investors holding A-shares (whether acquired through QFII, RQFII or Stock Connect) are subject to the following shareholding restrictions:

- (a) the shareholding of any single foreign investor in an A-share listed company must not exceed 10% of such company’s total issued shares; and
- (b) the aggregate shareholding of all foreign investors in an A-share listed company must not exceed 30% of such company’s total issued shares.

When aggregate foreign shareholding of an individual A-share listed company exceeds the 30% threshold, the foreign investors concerned will be requested to sell the relevant A-shares on a last-in-first-out basis within 5 trading days. If the 30% threshold is exceeded due to trading via Stock Connect, the SEHK will identify the exchange participant(s) concerned and require a force-sell. As a result, it is possible that the Sub-Fund may be required to unwind its positions where it has invested in an A-share listed company in respect of which the aggregate foreign shareholding threshold has been exceeded.

The SSE, SZSE and the SEHK (as the case may be) will issue warnings as the aggregate foreign shareholding of an SSE Security or SZSE Security approaches 30%. Northbound Trading buy orders will be suspended once the aggregate foreign shareholding reaches 28% and will resume when it drops back to 26%. Northbound Trading sell orders will not be affected.

When foreign investors carry out strategic investments in A-share listed companies in accordance with the relevant rules, the shareholding of such strategic investments is not capped by the above-mentioned percentages.

Further information about the Stock Connect is available at the website: <http://www.hkex.com.hk/eng/csm/index.htm>\*

#### **Investment in the PRC Inter-bank Bond Market via Northbound Trading Link under Bond Connect**

Bond Connect is an initiative launched in July 2017 for mutual bond market access between Hong Kong and mainland China (“Bond Connect”) established by China Foreign Exchange Trade System & National Interbank Funding Centre (“CFETS”), the China Central Depository & Clearing Co., Ltd. (“CCDC”), Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit, linking their respective financial infrastructures for trading, settlement and custody of China Interbank Bond Market (“CIBM”) bonds.

Bond Connect is governed by rules and regulations as promulgated by the PRC authorities. Such rules and regulations may be amended from time to time and include (but are not limited to):

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

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

- the “Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])” (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第 1 號)) issued by the People’s Bank of China (the “PBOC”) on 21 June 2017;
- the “Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect” (“債券通”北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of the PBOC on 22 June 2017; and
- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in China, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect (“Northbound Trading Link”). There will be no investment quota for Northbound Trading Link. Southbound trading is still to be implemented.

Under the Northbound Trading Link, eligible foreign investors are required to appoint the CFETS or other institutions recognised by the PBOC as registration agents to apply for registration with the PBOC.

Pursuant to the prevailing regulations in China, an offshore custody agent recognised by the Hong Kong Monetary Authority (currently, the Central Moneymarkets Unit) shall open omnibus nominee accounts with the onshore custody agent recognised by the PBOC (currently, the CCDC and Shanghai Clearing House). All bonds traded by eligible foreign investors will be registered in the name of Central Moneymarkets Unit, which will hold such bonds as a nominee owner.

### Available Classes

The Sub-Fund currently has the following classes of Units which are available to investors:

- Class A HKD (Accumulation) Units
- Class A HKD (Distribution) Units
- Class A RMB (Accumulation) Units

Additional classes of Units may be created in the future.

### Base Currency

The Base Currency of the Sub-Fund is HKD.

### Initial Offer Period

The Initial Offer Period for Class A HKD (Accumulation) Units has ended.

The Initial Offer Period of Class A HKD (Distribution) Units and Class A RMB (Accumulation) Units will be commence at 9:00 a.m. (Hong Kong time) on 31 December 2019 and end at 4:00 p.m. (Hong Kong time) on 2 January 2020 (or such other dates or times as the Manager may determine).

The initial Subscription Price in respect of Class A HKD (Distribution) Units and Class A RMB (Accumulation) Units is as follows:

Class	Initial Subscription Price per Unit
Class A HKD (Distribution) Units	HKD100

Class A RMB (Accumulation) Units	RMB100
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### Dealing Procedures

For details of dealing procedures, please refer to the sections headed “SUBSCRIPTION OF UNITS”, “REDEMPTION OF UNITS” and “SWITCHING” in the main body of this Explanatory Memorandum. The following apply to the Sub-Fund:

<i>Dealing Day</i>	each Business Day
<i>Dealing Deadline</i>	4:00 p.m. (Hong Kong time) on the relevant Dealing Day

### Payment of redemption proceeds

As set out in the main body of this Explanatory Memorandum, save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid by telegraphic transfer, within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless legal or regulatory requirements in the relevant jurisdiction (such as foreign currency controls) to which the Sub-Fund is subject render the payment of the redemption proceeds within the aforesaid time period not practicable, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the relevant jurisdiction.

### Investment Minima

The following investment minima apply to the Sub-Fund:

	Class A HKD (Accumulation) Units	Class A HKD (Distribution) Units	Class A RMB (Accumulation) Units
<i>Minimum initial investment</i>	HKD100 or its equivalent	HKD100 or its equivalent	RMB100 or its equivalent
<i>Minimum subsequent investment</i>	HKD100 or its equivalent	HKD100 or its equivalent	RMB100 or its equivalent
<i>Minimum holding</i>	HKD100 or its equivalent	HKD100 or its equivalent	RMB100 or its equivalent
<i>Minimum redemption amount</i>	HKD100 or its equivalent	HKD100 or its equivalent	RMB100 or its equivalent

The Manager may, in its absolute discretion, waive or agree to a lower amount of any of the above investment minima (either generally or in any particular case).

### Publication of Net Asset Value

The same latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on the Manager’s website [www.pickerscapital.com](http://www.pickerscapital.com)\*.

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

## Expenses and Charges

The following are the actual fees and charges payable in respect of each class of the Sub-Fund. Maximum fees permitted to be charged on one months' notice to Unitholders are set out under the section entitled "EXPENSES AND CHARGES" in the main body of this Explanatory Memorandum.

### Fees payable by Unitholders

<i>Subscription fee</i>	Up to 5% of the Subscription Price
<i>Redemption fee</i>	None
<i>Switching fee</i> <sup>^</sup>	Up to 5% of the Redemption Price of the Units being switched

<sup>^</sup> Certain distributors may impose a charge for each switching of Units in a class of the Sub-Fund acquired through them for Units in another class of the Sub-Fund or any other Sub-Fund under the Trust, which will be deducted at the time of the switching and paid to the relevant distributors. Unitholders who intend to switch their Units in one class of the Sub-Fund to Units in another class of the Sub-Fund or any other Sub-Fund under the Trust should check with their respective distributors for the charge on switching.

### Fees payable by the Sub-Fund

<i>Management fee</i>	1.5% per annum of the Net Asset Value of the Sub-Fund
<i>Performance fee</i>	15% of the amount by which the increase in total Net Asset Value per unit during the relevant performance period exceeds the High Water Mark. Please refer to the section "Performance Fee" below
<i>Trustee fee</i>	Up to 0.15% per annum of the Net Asset Value of the Sub-Fund, subject to a monthly minimum fee of HKD40,000 per Sub-Fund.

The Manager may, in its absolute discretion, (i) share with intermediaries the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee and (ii) share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee (in relation to a particular class) provided that such fees and charges are those which the Manager is entitled to receive for its own benefit.

### Performance Fee

#### (a) *Performance fee calculation*

Performance fee is payable annually 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 (before deduction of any provision for the performance fee and any distribution declared or paid in respect of that performance period) as at the last valuation day of a performance period.

"B" is the High Water Mark, which is the higher of:

- (i) the initial subscription price; and
- (ii) the Net Asset Value per Unit as at the end of any previous performance period in respect of which a performance fee was paid (after deduction of all fees including any performance fee and any distribution declared or paid in respect of that performance period).

Where a performance fee is payable for a performance period, the Net Asset Value per Unit on the last valuation day of that performance period 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%)

“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 each valuation day over the period from the start of performance period to the relevant valuation day (excluding Units created or redeemed on that relevant dealing day) divided by the total number of valuation days in such performance period.

Each performance period corresponds to the financial year of the Sub-Fund, except that the first performance period is from the first valuation day following the close of the initial offer period to the last valuation day of the Sub-Fund’s financial year.

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

*(b) Performance fee accrual*

The performance fee shall be accrued on each valuation day throughout a performance period. If the Net Asset Value per Unit 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 previously accrued performance fee will be reversed and no performance fee will be accrued.

The price of Units subscribed for or redeemed during a performance period will be based on the Net Asset Value per Unit (after accrual of performance fee as calculated in accordance with the above). Depending upon the performance of the Sub-Fund during the year, the price at which unitholders subscribe for or redeem Units at different times will be affected by performance of the Sub-Fund 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 performance fee. 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 a performance period. The unitholder may be advantaged or disadvantaged as a result of this calculation methodology.

For instance, a unitholder will be advantaged if he subscribes to the Sub-Fund during a performance period when the Net Asset Value per Unit is below the High Water Mark, and redeems prior to 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 Sub-Fund 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 as his subscription price of the Units has taken into account a provision for the performance fee.

If any Units are redeemed or switched to Units in another class on a Dealing Day during a performance period, the cumulative performance fee accrued during such performance period in respect of those Units shall be crystallised upon the redemption or switching and become payable to the Manager. Any performance fee accrued for that performance period will be paid to the Manager at the end of the relevant performance period.

(c) *Illustrative examples*

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

Assumptions:

- The initial subscription price for the relevant Unit is HKD100.
  - The performance fee payable is 15% 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)

Investor A subscribes for one Unit during the initial offer period at the initial subscription price. Thereafter, investor B subscribes for one Unit within the first performance period at a subscription price of HKD120. High Water Mark is the initial subscription price, which is HKD100.

By the end of the first performance period, the Net Asset Value per Unit is HKD110. The outperformance of Net Asset Value per Unit is thus HKD10. The average number of Units in issue on this valuation day is 2 Units.

The total performance fee payable by the Sub-Fund would be calculated as:

$$(\text{HKD}110 - \text{HKD}100) \times 15\% \times 2 \text{ Units} = \text{HKD}3$$

At the end of the first performance period, the Net Asset Value per Unit will be reduced by HKD1.5. In effect, each of Investors A and B will have borne the HKD1.5 performance fee in respect of the first performance period, regardless of the Subscription Price at which they invested.

- (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 per Unit 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 HKD108.5 (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 HKD98.50. 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 HKD105. There has been no outperformance of Net Asset Value per Unit. No performance fee is therefore payable in the second performance period.

### **Additional Risk Factors**

Investors should take note of the risk factors applicable to all Sub-Funds, including the Sub-Fund, which are set out in the section entitled "RISK FACTORS" in the main body of this Explanatory Memorandum

In addition, the following risk factors are specific to the Sub-Fund:

#### Investment risk

The Sub-Fund's investment portfolio may decrease in value due to any of the key risk factors below and therefore your investment in the fund may suffer losses. There is no guarantee of the repayment of principal.

#### Risk relating to dynamic asset allocation strategy

The Sub-Fund may incur greater transaction costs than a fund with static allocation strategy. The dynamic asset allocation strategy may not achieve the desired results under all circumstances and market conditions.

#### Concentration risk

The Sub-Fund will invest primarily in the China region (including Hong Kong) and may be adversely affected by negative conditions in any of such markets. The Sub-Fund typically offer less diversification and is therefore considered to be more risky than a more diversified investment fund. The Sub-Fund may be adversely affected by or depend heavily on the performance of the relevant country, or region. Investors should also be aware that the Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as it is more susceptible to fluctuations in value resulting from adverse conditions in its respective country/region.

#### Investing in China risk

Apart from the usual investment risk, investing in Chinese companies is also subject to certain other inherent risks and uncertainties. The overall economic conditions in the Mainland China may have a significant impact on the Sub-Fund's financial performance. Economic developments in the Mainland China follow patterns different from those in Hong Kong and other developed countries or regions as a result of differences in various economic aspects including economic structure, living standard, growth rate, level of government intervention in the economy, allocation of resources and rate of inflation. Further, the interpretation or application of current laws or regulations in the Mainland China may have adverse effects on the Sub-Fund's investments. Investors should note that investing in the Mainland China as an emerging market economy carries a greater degree of risk as the value of the Sub-Fund's assets invested in the Mainland China may be affected by uncertainties such as adverse economic, political developments, changes in government policies, foreign exchange, liquidity, taxation, currency repatriation restrictions, restrictions on foreign investment, legal or other regulatory events affecting the Mainland China market.

*Accounting and reporting standards:* Chinese companies are required to follow Chinese accounting standards and practice which follow international accounting standards to a certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to Chinese companies may be less rigorous, and there may be significant differences between financial statements prepared in accordance with Chinese accounting standards and practice and those prepared in accordance with international accounting standards. As the disclosure and regulatory

standards in China are less stringent than in more developed markets, there might be substantially less publicly available information about issuers in China on which the Manager can base investment decisions.

*PRC government control of currency conversion and future movements in exchange rates:* Various PRC companies derive their revenues in RMB but have requirements for foreign currency, including for the import of materials, debt service on foreign currency denominated debt; purchases of imported equipment and payment of any cash dividends declared in respect of e.g. H shares and N shares.

RMB is currently not a freely convertible currency. The existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. However, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the State Administration for Foreign Exchange. The conversion of RMB into Hong Kong dollars and United States dollars is based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. The Manager cannot predict nor give any assurance of any future stability of the RMB to Hong Kong dollar exchange rate. Fluctuations in exchange rates may adversely affect the Sub-Fund's Net Asset Value.

*PRC legal and regulatory system:* PRC laws and regulations affecting securities markets are relatively new and evolving, are subject to different interpretations and may be inconsistently implemented and enforced. Limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on the business operations of PRC companies. Such uncertainties could negatively affect the value of the investments held by the Sub-Fund and consequently the Net Asset Value of the Sub-Fund.

*Political and economic considerations:* Prior to 1978, the Chinese economy was centrally planned, and the Chinese government was responsible for formulating five-year plans for the country which set forth economic targets. However, since 1978, China has implemented a series of economic reform programmes emphasising the utilisation of market forces in the development of the Chinese economy and a high level of management autonomy. China's economy has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. However, there can be no assurance that the Chinese government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. The Chinese government may from time to time adopt corrective measures to control inflation and restrain the rate of economic growth, which may also have an adverse impact on the capital growth and performance of the Sub-Fund. Further, political changes, social instability and adverse diplomatic developments in China could result in the imposition of additional government restrictions including the expropriation of assets, confiscatory taxes or nationalisation of some or all of the investments held by the underlying securities in which the Sub-Fund may invest. The above factors could negatively affect the value of the investments held by the Sub-Fund and consequently the Net Asset Value of the Units.

*Securities markets and market liquidity risk:* The stock exchanges and markets in China have experienced significant fluctuations in the prices of securities, and no assurance can be given that such volatility will not continue in the future. China's securities markets are undergoing a period of

growth and change which may lead to difficulties in the settlement and recording of transactions (which may result in such markets being less efficient and less liquid from time to time) and in interpreting and applying the relevant regulations.

*Policy risk:* As the Sub-Fund is exposed to domestic PRC securities, the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies in the PRC (including monetary policy and fiscal policy) may have an influence over the PRC's capital markets and affect the pricing of A shares and B shares which the Sub-Fund is exposed to, which may in turn adversely affect the return of the Sub-Fund.

*Government intervention and restrictions risk:* The liquidity and price volatility associated with securities markets in China are subject to greater risks of government intervention (for example, to suspend trading in particular stocks) and imposition of trading restrictions for all or certain stocks from time to time. In addition, A-shares traded in the PRC are still subject to trading band limits that restrict maximum gain or loss in stock prices, such that trading for a security may be suspended if the trading price of the security has increased or decreased to the extent beyond the trading band limit. Trading bands may therefore mean that the prices of stocks may not necessarily reflect their underlying value. The suspension of trading of any security in the Sub-Fund's portfolio may render it impossible for the Manager to liquidate positions and can thereby expose the Sub-Fund to significant losses. Further, when the suspension is subsequently lifted, it may not be possible for the Manager to liquidate positions at a favourable price.

#### SME Board and ChiNext market risks

The Sub-Fund's investments in the SME Board and/or ChiNext board of the SZSE may result in significant losses for the Sub-Fund and its investors.

*Higher fluctuation on stock prices:* Listed companies on the SME Board and/or ChiNext board of the SZSE 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.

*Over-valuation risk:* Stocks listed on SME Board and/or ChiNext 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 the ChiNext market 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 market to delist. This may have an adverse impact on the Sub-Fund if the companies that it invests in are delisted.

#### STAR Board risks

The Sub-Fund may invest in the STAR Board via cross-border programs permitted under applicable PRC rules. The STAR Board was launched at the end of July 2019. Although technically shares listed on the STAR Board are deemed as A-shares, certain special requirements relating to the STAR Board vary from the existing rules applicable to other types of A-shares, including daily price fluctuation limit, use of securities borrowing and lending transactions, delisting mechanism, different arrangements with respect to voting rights of the issuer etc.

Given that the STAR Board has only been launched for a short period of time, the guidance and rules in this regard are relatively limited, involve more uncertainty and may keep changing and evolving. The STAR Board participants may be less experienced than the participants in the more

developed A-share market. The Sub-Fund's investment in the STAR Board may result in significant losses for the Sub-Fund and its investors.

#### Risks associated with depositary receipts

Exposure to depositary receipts including American Depositary Receipts ("ADRs") may generate additional risks compared to a direct exposure to the corresponding underlying stocks, in particular, the risk of non-segregation under applicable law of the depositary bank who hold the underlying stock as collateral and its own assets. In case of bankruptcy of the depositary bank, there could be a risk that the underlying shares would not be attributed to holders of depositary receipts, although segregation is an integral part of the depositary agreement regulating the issuance of the ADRs. In such case, the most likely scenario would be the trading suspension and thereafter a freeze of the price of the depositary receipts impacted by such bankruptcy event. Bankruptcy events in respect of the depositary banks issuing the depositary receipts may negatively affect the performance and/or the liquidity of the Sub-Fund. There are fees related to depositary receipts, for example fees charged by banks for the custody of underlying assets of depositary receipts, which may impact the performance of the depositary receipts. Also, holders of depositary receipts are not direct shareholders of the underlying company and generally do not have voting and other shareholder rights as shareholders do. The Sub-Fund may also be subject to liquidity risk as depositary receipts are often less liquid than the corresponding underlying stocks.

#### Investing in other funds risk

The Sub-Fund may from time to time invest in other funds (including ETFs) which make direct investments in A-shares. Investing in other funds may expose the Sub-Fund to the following risks:

*Additional fees associated with investing in underlying funds:* The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their management companies or investment managers. Some underlying funds may also impose fees or levies which may be payable by the Sub-Fund when it subscribes to or redeems out of such underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Sub-Fund.

*Investment objective risk:* Although the Manager will use due diligence procedures to select and monitor underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.

*Conflicts of interest risk:* The Sub-Fund may from time to time invest in other funds managed by the Manager or Connected Persons of the Manager. In such circumstances, in accordance with the Sub-Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Sub-Fund and the Manager may not obtain a rebate on any fees or charges levied by the underlying fund. In addition, where an underlying fund is managed by the Manager, all management and performance fees charged by the underlying fund will be waived for the Sub-Fund. However, despite such measures, conflicts of interest may nevertheless arise out of such investments, and in such event the Manager will use its best endeavours to avoid and resolve such conflicts fairly.

#### Stock Connect risk

The Sub-Fund's investments through the Stock Connect may be subject to the following risks.

*Quota limitations:* The Stock Connect is subject to quota limitations. The investment quota does not belong to the Sub-Fund and is utilised on a first-come-first-serve basis. In particular, once the remaining balance of the Northbound Trading Daily Quota drops to zero or the Northbound Trading 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).

The Sub-Fund's ability to invest in A-shares through the Stock Connect (and hence its ability to pursue its investment objective and strategy) may be affected.

*Suspension risk:* The SEHK, the SSE and the SZSE (as applicable) reserve 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 is effected, the Sub-Fund's ability to access the PRC market through the Stock Connect (and hence its ability to pursue its investment objective and strategy) will be adversely affected.

*Operational risk:* The Stock Connect provides a channel for investors from Hong Kong and overseas to access the China stock market directly. 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. As the securities regimes and legal systems of the two markets differ significantly, market participants may need to address issues arising from such differences on an on-going basis in order for the programme to operate.

Further, the "connectivity" in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and 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 Sub-Fund's ability to access the China A-Share market (and hence to pursue its investment strategy) will be adversely affected.

*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 the SSE or the SZSE will reject the sell order concerned. The SEHK will carry out pre-trade checking on China A-Shares sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

If the Sub-Fund 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 Sub-Fund may not be able to dispose of holdings of China A-Shares in a timely manner.

*Recalling of eligible stocks:* If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Sub-Fund's investment portfolio or strategy if, for example, the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk:* The HKSCC and CSDCC have established the clearing links and each has become 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. Should the remote event of CSDCC default occur and the CSDCC 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 the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC's liquidation. In that event, the Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

*Nominee arrangements:* HKSCC is the nominee holder of the SSE Securities and SZSE Securities acquired by Hong Kong and overseas investors through Stock Connect.

The CSRC Stock Connect rules expressly provide that investors enjoy the rights and benefits of the securities acquired through Stock Connect in accordance with applicable laws. Such rules are departmental regulations having legal effect in the PRC. However, the application of such rules is untested, and there is no assurance that PRC courts will recognise such rules (for example, in liquidation proceedings of PRC companies).

It should be noted that, under the CCASS Rules, HKSCC as nominee holder shall have no obligation to take any legal action or court proceedings to enforce any rights on behalf of the investors in respect of the SSE Securities and SZSE Securities in the PRC or elsewhere. Therefore, although the Sub-Fund's ownership may be ultimately recognised, the Sub-Fund may suffer difficulties or delays in enforcing its rights in SSE Securities or SZSE Securities.

*Participation in corporate actions and shareholders' meetings:* HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities. Hong Kong and overseas investors (including the Sub-Fund) 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 as short as one business day only. Therefore, the Sub-Fund may not be able to participate in some corporate actions in a timely manner.

Hong Kong and overseas investors (including the Sub-Fund) are holding SSE Securities and SZSE Securities traded via Stock Connect program through their brokers or custodians. According to existing PRC practice, multiple proxies are not available. Therefore, the Sub-Fund may not be able to appoint proxies to attend or participate in shareholders' meetings in respect of the SSE Securities and SZSE Securities.

*Limited Protection by Investor Compensation Fund:* Investment through the Stock Connect is conducted through broker(s), and is subject to the risks of default by such brokers' in their obligations. While the Sub-Fund is covered by the Investor Compensation Fund for defaults occurring on or after 1 January 2020 for northbound trading, it is not protected by the China Securities Investor Protection Fund in the PRC for northbound trading, as it carries out northbound trading through securities brokers in Hong Kong but not PRC brokers.

*Regulatory risk:* The Stock Connect is evolving, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC 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 Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

*Taxation risk:* Although the relevant authorities have announced that corporate income tax, business tax, and individual income tax will be temporarily exempted on gains derived by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-shares through the Stock Connect, dividends from A-shares paid to Hong Kong and overseas investors will continue to be subject to 10% PRC withholding income tax and the company distributing the dividend has the withholding obligation. Further, investors should note that the tax exemption on gains derived from trading of A-shares via the Stock Connect under Notice No. 81 and Notice No. 127 (both as defined in the section headed "TAXATION" below) was granted on a temporary basis and there is no assurance that the Sub-Fund will continue to enjoy the tax exemption over a long period of time. If the exemption under Notice No. 81 and Notice No. 127 is withdrawn, or if guidance is issued in relation to the tax position for A-shares traded via the Stock Connect which differs from the current practice of the Manager, any tax on capital gains derived from the trading of A-shares via the Stock

Connect may be directly borne by the Sub-Fund and may result in a substantial impact to the Sub-Fund's Net Asset Value.

The PRC tax rules and practices in relation to the Stock Connect are new and their implementation is untested and uncertain. It is possible that any future announcement by the PRC tax authority may subject the Sub-Fund to unforeseen tax obligations, which may have retrospective effect.

*Differences in trading days:* Stock Connect only operates on days when the SEHK market and the mainland market (SSE and SZSE) are open for trading, and banking services are available in both markets on the corresponding settlement days. Accordingly, there may be occasions when it is a trading day for the PRC market but not a trading day for the Hong Kong market. On these occasions, the Sub-Fund may be subject to a risk of price fluctuations in A-shares as the Sub-Fund will not be able to trade A-shares through the Stock Connect.

#### Risks associated with PRC Inter-bank Bond Market

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the PRC inter-bank bond market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

The Sub-Fund is also exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

For investments via the Bond Connect, the relevant filings, registration with the PBOC and account opening have to be carried out via an onshore settlement agent, offshore custody agent, registration agent or other third parties (as the case may be). As such, the Sub-Fund is subject to the risks of default or errors on the part of such third parties.

Debt securities purchased via Bond Connect will be held in the name of the Central Moneymarkets Unit. The Sub-Fund's ownership in those debt securities may not be reflected directly in record entry with CCDC/ Shanghai Clearing House and will instead be reflected on the records of the Central Moneymarkets Unit. The Sub-Fund may therefore depend on Central Moneymarkets Unit's ability or willingness as the record holder of debt securities purchased under Bond Connect to enforce the Sub-Fund's ownership rights. If the Sub-Fund wishes to directly enforce its ownership rights or creditor rights against the bond issuers, there lacks judicial precedents in China on whether such an action will be recognised and enforced by the Chinese courts.

Investing in the PRC inter-bank bond market via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on these regimes are subject to change which may have potential retrospective effect. In the event that the relevant Mainland Chinese authorities suspend account opening or trading on the PRC inter-bank bond market, the Sub-Fund's ability to invest in the PRC inter-bank bond market will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective will be negatively affected.

By investing in the PRC inter-bank bond market, the Sub-Fund may be at risk of being subject to PRC taxes. There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

### PRC taxation risk

By investing in securities (including A-shares, B-shares and H-shares) issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore or offshore, the Sub-Fund may be at risk of being subject to PRC taxes.

There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

Please refer to the section headed "TAXATION" above in the main body of this Explanatory Memorandum for further information.

### RMB currency risk

RMB is not freely convertible and subject to exchange controls and restrictions. From 2005, the RMB is no longer pegged to the USD but has moved to a managed floating exchange rate system under which the RMB is permitted to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The daily trading price of 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 PBOC. 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. It should be noted that, RMB is not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Such government policies and restrictions are subject to change, and there can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future. 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 (for example, HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the Sub-Fund.

Assets of the Sub-Fund denominated in RMB are valued with reference to the CNH rate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they are traded in different and separate markets. Since the two RMB markets operate independently where the flow between them is highly restricted, CNH and CNY are traded at different rates and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors.

### Access Products risk

The Sub-Fund may from time to time obtain exposure to restricted markets by investing into Access Products.

An Access Product represents only an obligation of the counterparty issuing the Access Product to provide to the Sub-Fund the economic performance equivalent to holding the underlying shares. An Access Product does not provide any beneficial or equitable entitlement or interest in the shares to which the Access Product is linked. An Access Product constitutes an unsecured contractual obligation of the relevant issuer. Accordingly, the Sub-Fund is subject to credit risk of the issuer of any Access Product invested in by the Sub-Fund. The Sub-Fund may suffer a loss, potentially equal to the full value of the Access Product, if the issuer becomes bankrupt or otherwise fails to perform its obligations under the Access Product due to financial difficulties.

Any Access Product will be subject to the terms and conditions imposed by its issuer and such terms and conditions may lead to delays in implementing the investment strategy of the Sub-Fund. Access Products typically have no active secondary market and so have limited liquidity. In order

to liquidate investments, the Sub-Fund will rely upon the issuer quoting a price to unwind part of the Access Product. Accordingly the ability to adjust positions may be restricted which may have an impact on the performance of the Sub-Fund.

Under the relevant laws and regulations, the ability of Access Product issuers to acquire shares in certain companies may be limited from time to time due to the imposition of certain investment restrictions. These restrictions may restrict the ability of an issuer to issue, and therefore the ability of the Sub-Fund to purchase, Access Products linked to certain shares. In certain circumstances, the Manager may not be able to fully implement or pursue the investment strategy of the Sub-Fund due to such restrictions.

### Short selling risk

The Sub-Fund's investment portfolio may include short positions. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Sub-Fund of buying those securities to cover the short position. There can be no assurance that the security necessary to cover the short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, if a sufficient number of market participants have entered into a short position, the short position may not react in the same way as a security would with no or limited short interest. In the case of a market downturn the short position may therefore not provide the investment return the Manager expected.

### Risk of investing in fixed income securities

Although the Sub-Fund will predominantly be invested in equity, it may invest up to 30% of its Net Asset Value in fixed income instruments – there are risks involved in such investments. Please refer to “Risk of investing in fixed income securities” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

*Sovereign debt risk:* The Sub-Fund'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 request the Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

*Credit rating agency risk:* In respect of investments in PRC onshore debt securities, the credit appraisal system in the PRC and the rating methodologies employed in the PRC may be different from those employed in other markets. Credit ratings given by PRC rating agencies may therefore not be directly comparable with those given by other international rating agencies.

*Urban investment bond risks:* The Sub-Fund may invest in urban investment bonds. Although urban investment bonds, which are issued by LGFVs, may appear to be connected with local government bodies, they are typically not guaranteed by such local government bodies or the central government of the PRC. As such, local government bodies or the central government of the PRC are not obligated to support any LGFVs in default. In the event that the LGFVs default on payment of principal or interest on any urban investment bonds within the Sub-Fund's portfolio, the Sub-Fund may suffer significant loss and the Net Asset Value of the Sub-Fund may be adversely affected.

### Risks associated with convertible bonds

Convertible bonds are hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of the issuer, generally at the option of the holder, during

a specified time period. Convertible bonds have characteristics of, and hence are subject to the risks associated with, both debt and equity securities. Convertible bonds are similar to fixed income securities because they usually pay a fixed interest rate and are obligated to repay principal on a given date in the future. Similar to debt securities, they are sensitive to changes in interest rates and credit standing of the issuer particularly when their conversion value (which is the security's worth, at market value, if converted into the underlying shares) is lower than their investment value (which is determined by its yield in comparison with the yields of other comparable securities that do not have a conversion privilege). Convertible bonds also have characteristics similar to the equity securities and their prices are particularly sensitive to fluctuations in the price of the underlying shares when their conversion value approximates or exceeds their investment value. It should be noted, however, that some convertible bonds are callable by the issuer, which means that their potential to appreciate along with appreciation of the value of the underlying shares is limited. Investors should refer to the general risk factors relating to both fixed income securities (for example, interest rate risk and credit risk) and equity securities (for example, risks relating to price fluctuations of the underlying shares).

#### Risk of investing in financial derivative instruments

The Manager may for investment and/or hedging purposes invest in financial derivative instruments subject to the investment restrictions applicable to the Sub-Fund as set out in the section headed "INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS" in the main body of this Explanatory Memorandum and the section headed "Investment Strategy" in this Appendix 1. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to "Investment risks – Risk of investing in financial derivative instruments" and "Investment risks – Over-the-counter markets risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### Hedging risk

The Manager may from time to time use hedging techniques, including investments in financial derivative instruments, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to "Investment risks – Hedging risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### Risks of investing in emerging markets

The Sub-Fund may invest in Underlying ETFs which invests in emerging markets – there are risks involved in the Underlying ETFs' investments in emerging markets, which may in turn adversely affect the Net Asset Value of the Sub-Fund. Please refer to "Emerging market risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### Foreign exchange risk

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Units may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

#### Performance fee risk

In addition to receiving a management fee, the Manager may also receive a performance fee based on the appreciation in the Net Asset Value per Unit. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised.

Furthermore, due to the way in which the performance fee is calculated, a Unitholder may incur a performance fee even though ultimately the Unitholder does not receive a positive return from the Sub-Fund (please also refer to the details of how performance fee is calculated under the section headed “Performance Fee” above). The performance fee may also create an incentive for the Manager to make investments for the Sub-Fund which are riskier than would be the case in the absence of a fee based on the performance of the Sub-Fund.

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.

#### Dividends risk / Distributions payable out of capital or effectively out of capital risk

Dividend distributions are not guaranteed and are subject to the discretion of the Manager. Thus investors may not receive any distributions. Where there is a distribution, there will not be a target level of dividend payout.

In circumstances where the net distributable income of a class is insufficient to pay for any dividend which may be declared, the Manager may, at its discretion, (i) pay dividend out of capital of the Sub-Fund; or (ii) pay dividend out of gross income of the Sub-Fund (that is, income before taking into account any fees or expenses) while charging all or part of the Sub-Fund’s fees and expenses to the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital may require the Manager to sell the assets of the Sub-Fund and 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 capital or effectively out of capital of the Sub-Fund (as the case may be) may result in an immediate reduction of the Net Asset Value per Unit of the relevant class. The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC’s prior approval and by giving not less than one month’s advance notice to Unitholders.

Where any distribution involves payment of dividends out of capital and/or effectively out of capital of the Sub-Fund, investors should note that a high distribution yield does not imply a positive or high return on the total investment.

Please refer to “Risk of no dividends” and “Distributions payable out of capital or effectively out of capital risk” under the section headed “RISK FACTORS” in the main body of this Explanatory Memorandum.

**Unitholders will receive distributions declared in respect of a Class in the relevant Class Currency. Unitholders are advised to check with their brokers regarding arrangements for distributions.**

#### **Reports and accounts**

The first accounts for the Sub-Fund covers the period to 31 December 2019.

#### **Distribution policy**

In respect of each Class, the Manager has discretion as to whether or not to make any distribution and as to the frequency and amount of distributions.

Currently, it is not envisaged that any distributions will be paid in respect of the Accumulation classes (i.e. Class A HKD (Accumulation) Units and Class A RMB (Accumulation) Units). Therefore any net income and net capital gains in respect of an Accumulation Class will be reinvested, and will be reflected in the relevant Net Asset Value per Unit.

The Manager currently intends to make quarterly dividend distributions in respect of Class A HKD (Distribution) Units at the Manager's discretion. Dividends may be paid out of capital or effectively out of capital of the relevant Class, and may result in an immediate reduction of the Net Asset Value per Unit of the Sub-Fund. There is no guarantee of any distribution nor, where distribution is made, the amount being distributed.

Investors should note that there is no guarantee of distribution nor, where distribution is made, the amount being distributed. Distributions declared (if any) will be paid to Unitholders at their own risk and expense by telegraphic transfer in the relevant Class Currency.