

**GFI UNIT TRUST SERIES**

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**EXPLANATORY MEMORANDUM**

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August 2022

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## **IMPORTANT INFORMATION FOR INVESTORS**

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

This Explanatory Memorandum comprises information relating to GFI Unit Trust Series (“**Fund**”) and its sub-funds (“**Sub-Funds**”). The Fund is an open-ended unit trust established as an umbrella unit trust under the laws of Hong Kong by a trust deed dated 11 April 2014, as amended from time to time (“**Trust Deed**”) between BOCI-Prudential Trustee Limited (“**Trustee**”) as trustee and GF International Investment Management Limited (“**Manager**”) as manager.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the Product Key Facts Statement of each Sub-Fund, 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 Explanatory Memorandum or the Product Key Facts Statement misleading. However, neither the delivery of this Explanatory Memorandum and the Product Key Facts Statement nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum or the Product Key Facts Statement is correct as of any time subsequent to the date of publication. This Explanatory Memorandum and the Product Key Facts Statement may from time to time be updated.

Distribution of this Explanatory Memorandum must be accompanied by a copy of the Product Key Facts Statement of each Sub-Fund and the latest available annual report and audited accounts of the Fund and the Sub-Fund(s) (if any) and any subsequent unaudited semi-annual accounts. Units of the Sub-Fund(s) are offered on the basis only of the information contained in this Explanatory Memorandum, the Product Key Facts Statement and (where applicable) the above mentioned annual reports and audited accounts and unaudited semi-annual accounts. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum or the Product Key Facts Statement should be regarded as unauthorised and accordingly must not be relied upon.

### **Hong Kong Authorisation and Approval**

The Fund and the Sub-Fund(s) have been authorised by the SFC pursuant to section 104 of the SFO. The SFC’s authorisation is not a recommendation or endorsement of the Fund and the Sub-Fund(s) nor does it guarantee the commercial merits of the Fund and the Sub-Fund(s) or their performance. It does not mean the Fund or the Sub-Fund(s) is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

## **Selling restrictions**

**General:** No action has been taken to permit an offering of Units of the Sub-Fund(s) or the distribution of this Explanatory Memorandum or the Product Key Facts Statement in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum or the Product Key Facts Statement may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, Units of the Sub-Fund(s) may not be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised. Receipt of this Explanatory Memorandum or the Product Key Facts Statement does not constitute an offer of Units of the Sub-Fund(s) in those jurisdictions in which it is illegal to make such an offer.

**United States:** In particular, potential investors should note the following:-

- (a) the Units have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act); and
- (b) the Fund and the Sub-Fund(s) have not been and will not be registered under the United States Investment Company Act of 1940 as amended.

Potential applicants for 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.

Some of the information in this Explanatory Memorandum is a summary of corresponding provisions in the Trust Deed. Investors should refer to the Trust Deed for further details.

**Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the respective Sub-Fund will be achieved. Investors should read the Explanatory Memorandum, particularly the section headed “Risk Factors”, and the section headed “Specific Risk Factors” in the relevant Appendix, before making their investment decisions.**

**Please note that this Explanatory Memorandum must be read together with the relevant Appendix and/or Addendum to this Explanatory Memorandum which relate to a specific Sub-Fund of the Fund. The Appendix and/or Addendum set out the details relating to the Sub-Fund (which may include, without limitation, specific information on the Sub-Fund and additional**

**terms, conditions and restrictions applicable to the Sub-Fund). The provisions of an Appendix and/or an Addendum supplement this Explanatory Memorandum.**

## **Enquiries**

Investors may contact the Manager for any enquiries or complaints in relation to the Fund and any Sub-Fund. To contact the Manager, investors may either:

- write to the Manager (address at Unit 3503-3505, Two International Finance Centre, 8 Finance Street, Central, Hong Kong); or
- call the Manager at telephone number at +852 3695 2808.

The Manager will handle or channel to the relevant party any enquiries or complaints from investors and revert to the investors accordingly.

## **Further Information**

Investors may access the website of the Manager at <http://www.gffunds.com.hk> for further information on the Fund and the Sub-Fund(s), including this Explanatory Memorandum and the Product Key Facts Statement, annual and semi-annual reports and latest Net Asset Values. This website has not been reviewed by the SFC.

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**DIRECTORY OF PARTIES**

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**Manager****GF International Investment Management Limited**

Unit 3503-3505, 35/F, Two International Finance Centre,  
8 Finance Street, Central,  
Hong Kong

**Trustee, Administrator and Registrar****BOCI-Prudential Trustee Limited**

Suites 1501-1507 & 1513 – 1516, 15/F  
1111 King's Road  
Taikoo Shing  
Hong Kong

**Directors of the Manager**

WANG Fan  
ZHANG Jinghan  
SHANGGUAN Peng

**Custodian****Bank of China (Hong Kong) Limited**

14/F., Bank of China Tower  
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Hong Kong

**Solicitors to the Manager****Deacons**

5/F, Alexandra House  
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**QFI Holder (in respect of GFI Select Greater China Growth Fund)****GF International Investment Management Limited**

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Hong Kong

**Auditors****Ernst & Young, Ltd**

22/F, CITIC Tower,  
1 Tim Mei Avenue,  
Hong Kong

**QFI Custodian (in respect of GFI Select Greater China Growth Fund)****Bank of China Limited**

International Financial Bldg.,  
No.2022, Jianshe Road,  
Luohu District, Shenzhen, China



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## DEFINITIONS

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

<b>“Administrator”</b>	means BOCI-Prudential Trustee Limited, acting in its capacity as administrator of the Fund and its Sub-Funds or such other entity as may be appointed from time to time as the administrator of the Fund and its Sub-Funds.
<b>“Appendix”</b>	the appendix containing specific information in relation to a Sub-Fund or a Class or Classes of Units in relation thereto which is enclosed with this Explanatory Memorandum and which forms part of this Explanatory Memorandum
<b>“Accounting Date”</b>	31 December in each year or such other date or dates in each year as the Manager may from time to time select in respect of any Sub-Fund after consultation with the Trustee and notification to the Unitholders of such Sub-Fund
<b>“Accounting Period”</b>	a period commencing on the date of establishment of the Fund or the relevant Sub-Fund (as the case may be) or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund
<b>“Amortisation Period”</b>	in relation to the Fund and/or a Sub-Fund, such period as specified in the relevant Appendix over which establishment costs of the Fund and/or such Sub-Fund will be amortised
<b>“Application Form”</b>	the prescribed application form for the subscription of Units and for the avoidance of doubt, the Application Form does not form part of this Explanatory Memorandum
<b>“Authorised Distributor”</b>	any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors
<b>“Base Currency”</b>	in relation to a Sub-Fund, means the currency of account of the Sub-Fund as specified in the relevant Appendix

<b>“Business Day”</b>	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 in relation to a Sub-Fund as the Trustee and Manager may determine from time to time and as specified in the relevant Appendix, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
<b>“CCDC”</b>	means China Central Depository and Clearing Co., Ltd.
<b>“CIBM”</b>	means China interbank bond market
<b>"Class"</b>	means any class of Units in issue in relation to a Sub-Fund
<b>“Class Currency”</b>	in relation to a Class in a Sub-Fund, means the currency of account of such Class as specified in the relevant Appendix
<b>“Code”</b>	the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the Commission, as may be amended from time to time
<b>“connected person”</b>	in relation to a company, means: <ul style="list-style-type: none"> <li>(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; or</li> <li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li> <li>(c) any member of the group of which that company forms part; or</li> <li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c) above</li> </ul>
<b>“Conversion Form”</b>	the prescribed conversion form for the conversion of Units and for the avoidance of doubt, the Conversion Form does not form part of this Explanatory Memorandum

<b>“CSRC”</b>	China Securities Regulatory Commission
<b>“Custodian”</b>	Bank of China (Hong Kong) Limited
<b>“Explanatory Memorandum”</b>	this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time
<b>“Fund”</b>	GFI Unit Trust Series
<b>“Government and other public securities”</b>	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>	Hong Kong Special Administrative Region of the People’s Republic of China
<b>“HK\$” or “HKD”</b>	Hong Kong Dollars, the lawful currency of Hong Kong
<b>“HKFRS”</b>	Hong Kong Financial Reporting Standards
<b>“HKSE”</b>	The Stock Exchange of Hong Kong
<b>“Initial Offer Period”</b>	in relation to a Sub-Fund or a Class or Classes of Units, such period as the Manager may determine for the purpose of making an initial offer of Units of such Sub-Fund or such Class or Classes and as specified in the relevant Appendix (if applicable)
<b>“Initial Offer Price”</b>	the price per Unit during the Initial Offer Period as determined by the Manager and as specified in the relevant Appendix (if applicable)
<b>“instruments with loss-absorption features”</b>	The term “instruments with loss-absorption features” (or “ <b>LAP</b> ”) is intended to capture debt instruments with features of contingent write-down or contingent conversion to ordinary shares on the

occurrence of the following: (a) when a financial institution is near or at the point of non-viability; or (b) when the capital ratio of a financial institution falls to a specified level. These include:

- (i) debt instruments that meet the qualifying criteria to be Additional Tier 1 Capital or Tier 2 Capital under the Banking (Capital) Rules. The same principle applies to debt instruments issued under an equivalent regime of non-Hong Kong jurisdictions; and
- (ii) external LAC debt instruments under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules; and debt instruments issued under a regime of non-Hong Kong jurisdictions which implements the Financial Stability Board’s standards for “Total Loss-absorbing Capacity Term Sheet”.

“Non-preferred senior debt instruments” (may be named as “Tier 3” in some jurisdictions) and senior or subordinated debt instruments issued by a holding company of a financial institution which fall within the above circumstances will be in-scope LAP.

For the avoidance of doubt, instruments in the legal form of equities (including ordinary shares and preferred shares) and all types of deposits (including certificate of deposits) are excluded.

<b>“Investment Delegate”</b>	an entity that has been delegated the investment management function of all or part of the assets of a Sub-Fund, the details of which are as specified in the relevant Appendix (if applicable)
<b>“IOP Deadline”</b>	4:00 p.m. (Hong Kong time) on the last Business Day of the Initial Offer Period of a Sub-Fund or a particular Class of Units or such other time on such Business Day or such other day as the Manager with the approval of the Trustee may from time to time determine and as specified in the relevant Appendix
<b>“Issue Price”</b>	the issue price of a Unit of a particular Class after the expiry of the Initial Offer Period calculated in accordance with the Trust Deed and as described below under <b>“Investing in the Fund - Issue Price”</b>

<b>“Mainland China”</b>	all customs territory of the People’s Republic of China
<b>“Manager”</b>	GF International Investment Management Limited in its capacity as the manager of the Fund and its Sub-Funds or such other entity as may be appointed from time to time as the manager of the Fund and its Sub-Funds
<b>“Minimum Initial Subscription Amount”</b>	the minimum initial investment for Units in a Sub-Fund or a Class of Units and as specified in the relevant Appendix
<b>“Minimum Holding Amount”</b>	the minimum number or value of Units of any Sub-Fund or Class of Units which must be held by any Unitholder and as specified in the relevant Appendix
<b>“Minimum Redemption Amount”</b>	the minimum number or value of Units of any Sub-Fund or Class of Units to be redeemed by any Unitholder in respect of a partial redemption of Units and as specified in the relevant Appendix
<b>“Minimum Subsequent Subscription Amount”</b>	the minimum additional subscriptions for Units in a Sub-Fund or a Class of Units and as specified in the relevant Appendix
<b>“Minimum Subscription Level”</b>	the total minimum subscription amount, if applicable, to be received on or prior to the close of the Initial Offer Period and as specified in the relevant Appendix
<b>“MOF”</b>	Ministry of Finance of the PRC
<b>“Net Asset Value”</b>	in relation to a Sub-Fund means the net asset value of such Sub-Fund or, as the context may require, of a Unit of the Class or Classes relating to such Sub-Fund, calculated in accordance with the provisions of the Trust Deed and as summarised below under <i>“Valuation and Suspension - Calculation of Net Asset Value”</i>
<b>“Payment Period”</b>	such period as the Manager with the approval of the Trustee may determine within which payment for Units issued for cash after the Initial Offer Period for such Units is due, and as specified in the relevant Appendix
<b>“PBOC”</b>	People’s Bank of China

<b>“PRC”</b>	the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, Macau and Taiwan
<b>“Qualified Exchange Traded Funds”</b>	exchange traded funds that are: <ul style="list-style-type: none"> <li>(a) authorized by the SFC under 8.6 or 8.10 of the Code; or</li> <li>(b) listed and regularly traded on internationally recognized 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 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 8.10 of the Code</li> </ul>
<b>“QFI” or “QFI Holder”</b>	means qualified foreign investor(s) (including, if applicable, qualified foreign institutional investors (“ <b>QFI</b> ”) and Renminbi qualified foreign institutional investors (“ <b>RQFI</b> ”)) approved pursuant to the relevant PRC laws and regulations, as may be promulgated and/or amended from time to time
<b>“Redemption Charge”</b>	the redemption charge (if any) payable upon redemption of Units and as specified in the relevant Appendix
<b>“Redemption Day”</b>	in relation to a Sub-Fund, or, as the context may require, of a particular Class relating to a Sub-Fund, such Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for redemption of Units in that Sub-Fund or the relevant Class or Classes and as specified in the relevant Appendix
<b>“Redemption Deadline”</b>	in relation to a Redemption Day, such time by which a redemption request in respect of a Sub-Fund or a Class of Units must be received either on such Redemption Day or on such other Business Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of that Sub-Fund or the relevant Class may from time to time be sold and as specified in the relevant Appendix

<b>“Redemption Form”</b>	the prescribed redemption form for the redemption of Units and for the avoidance of doubt, the Redemption Form does not form part of this Explanatory Memorandum
<b>“Redemption Price”</b>	the price at which Units will be redeemed as determined in accordance with the Trust Deed and as described below under <b>“Redemption of Units - Redemption Price”</b>
<b>“Refund Period”</b>	14 Business Days from the relevant Subscription Day or close of the relevant Initial Offer Period (as the case may be) or such other period as specified in the relevant Appendix within which subscription moneys in respect of an application which was rejected or a Sub-Fund or a Class of Units which was not launched will be returned to the relevant applicant
<b>“reverse repurchase transactions”</b>	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>“Registrar”</b>	BOCI-Prudential Trustee Limited in its capacity as registrar of the Fund
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SAFE”</b>	State Administration of Foreign Exchange
<b>“sale and repurchase transactions”</b>	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>	collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions
<b>“securities lending transactions”</b>	transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee

<b>“Securities Market”</b>	any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded
<b>“Semi-Annual Accounting Date”</b>	30 June in each year or such other date or dates in each year as the Manager may from time to time select in respect of any Sub-Fund and notify to the Trustee and the Unitholders of such Sub-Fund
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571), as amended
<b>“STA”</b>	State Taxation Administration of the PRC
<b>“SSE”</b>	the Shanghai Stock Exchange
<b>“Stock Connect”</b>	the securities trading and clearing linked programme with an aim to achieve mutual stock market access between Mainland China and Hong Kong, comprising the Shanghai-Hong Kong Stock Connect and/or the Shenzhen-Hong Kong Stock Connect
<b>“Sub-Fund”</b>	a separate pool of assets of the Fund that is invested and administered separately
<b>“Subscription Charge”</b>	the subscription charge (if any) payable on the issue of Units and as specified in the relevant Appendix
<b>“Subscription Day”</b>	in relation to a Sub-Fund, or, as the context may require, of a particular Class relating to a Sub-Fund, such Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for subscription of Units in that Sub-Fund or the relevant Class or Classes and as specified in the relevant Appendix
<b>“Subscription Deadline”</b>	in relation to a Subscription Day, such time by which an application for subscription in respect of a Sub-Fund or a Class of Units must be received either on such Subscription Day or on such other Business



Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of that Sub-Fund or the relevant Class may from time to time be sold and as specified in the relevant Appendix

<b>“Substantial Financial Institution”</b>	an authorised institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency
<b>“Switching Fee”</b>	the switching fee (if any) payable on the conversion of Units and as specified in the relevant Appendix
<b>“SZSE”</b>	the Shenzhen Stock Exchange
<b>“Trust Deed”</b>	the trust deed dated 11 April 2014 establishing the Fund and entered into by the Manager and the Trustee (as amended from time to time)
<b>“Trustee”</b>	BOCI-Prudential Trustee Limited in its capacity as trustee of the Fund and its Sub-Funds or such other entity as may be appointed from time to time as the trustee of the Fund and its Sub-Funds
<b>“Unit”</b>	a unit in a Sub-Fund
<b>“Unitholder”</b>	a person registered as a holder of a Unit
<b>“Urban Investment Bonds”</b>	(城投債) debt instruments issued by local government financing vehicles (“LGFVs”) in the Mainland China. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.
<b>“U.S.”</b>	United States of America
<b>“US\$” or “USD”</b>	U.S. Dollars, the lawful currency of the United States of America

**“Valuation Day”**

each Business Day on which the Net Asset Value of a Sub-Fund and/or the Net Asset Value of a Unit or a Class of Unit falls to be calculated and in relation to each Subscription Day or Redemption Day (as the case may be) of any Class or Classes of Units means either such Subscription Day or Redemption Day (as the case may be) or such other Business Day or day as the Manager and the Trustee may from time to time determine, either generally or in relation to a particular Sub-Fund or Class of Units, and as specified in the relevant Appendix

**“Valuation Point”**

the close of business in the last relevant market to close on a relevant Valuation Day or such other time on that day or such other day as the Manager and the Trustee may determine from time to time either generally or in relation to a particular Sub-Fund or Class of Units and as specified in the relevant Appendix.

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## **THE FUND**

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

The Fund is organised as an umbrella fund and details of each of its current Sub-Fund(s) and/or their respective Class or Classes of Units are set out in the relevant Appendix. Subject to any applicable regulatory requirements and approvals, the Manager may in its sole discretion create further Sub-Funds or determine to issue additional Classes or multiple Classes in relation to each Sub-Fund in the future.

Each Sub-Fund is established as a separate trust under the Trust Deed, and the assets of each Sub-Fund will be invested and administered separately from the assets of, and shall not be used to meet liabilities of, the other Sub-Fund(s).

The Base Currency of a Sub-Fund will be set out in the relevant Appendix. Each Class of Units within a Sub-Fund will be denominated in the Class Currency thereof, which may be the Base Currency of the Sub-Fund to which such Class relates or such other currency of account as specified in the relevant Appendix.

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## MANAGEMENT AND ADMINISTRATION OF THE FUND

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### *Manager*

The Manager of the Fund is GF International Investment Management Limited.

The Manager, which has a paid-up capital of HKD500 million as of 31 December 2021, is a wholly owned subsidiary of GF Fund Management Co., Ltd. (“**GF Fund Management**”). Established in 2003, GF Fund Management has a registered capital of RMB140.978 million as of 31 December 2021, and is one of the largest public fund management institutions in the PRC. As of 31 December 2021, the asset of public funds under management of GF Fund Management was RMB1,129.625 billion, ranking the third in the domestic market.

The Manager is licensed by the SFC for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

The Manager undertakes the management of the assets of the Fund. The Manager may appoint Investment Delegate and delegate any of its management functions in relation to assets of specific Sub-Funds to such Investment Delegate subject to prior SFC approval. In the event that an Investment Delegate is appointed by the Manager in respect of an existing Sub-Fund, at least one month’s prior notice will be provided to Unitholders of such Sub-Fund and this Explanatory Memorandum and/or the relevant Appendix will be updated to include such appointment.

The Manager shall not be exempted from or indemnified against any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence for which it may be liable in relation to its duties, or be indemnified against such liability by Unitholders or at Unitholders' expense.

### *Directors of Manager*

Details of the directors of the Manager are as follows:

#### WANG Fan

Dr. Wang is currently the Chairperson of the Board of the Manager and the General Manager and Director of GF Fund Management Co., Ltd. His previous working experiences include working in the Ministry of Finance of the People’s Republic of China, National Council for Social Security Fund of the People’s Republic of China, E Fund Management Co., Ltd., and he was previously the Deputy General Manager of GF Fund Management Co., Ltd. Dr. Wang obtained a doctor degree from Central University of Finance and Economics in 2011.

## ZHANG Jinghan

Ms. Zhang is currently the Director of the Board of the Manager and the Deputy General Manager of GF Fund Management. She served in the CSRC for more than 16 years before joining the Manager. She held various senior positions in the CSRC, including Director of the Private Equity Supervision Division, Vice Director and Director of the Fund Supervision Division. Ms. Zhang was awarded a Master degree in Management by the Accounting Faculty of Renmin University of China in 2001 and later graduated from Sciences Po in France with a Master degree in Public Administration.

## SHANGGUAN Peng

Mr. Shangguan is currently the Director of the Board and Chief Executive Officer of the Manager. He is a Certified Public Accountant in PRC. Before joining the Manager, Mr. Shangguan acted as an Assistant General Manager, Deputy General Manager and the Director in Ruiyuan Capital, where he was in charge of the sales sector, Alternative Investment Department and Asset Management Department. Previously he served as Executive Director in ZhongYu XQ (Shenzhen) Investment Management Co., Ltd where he was responsible for equity investment and research. He was awarded a Bachelor degree in Accounting from Xiamen University, China in 2000.

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

The Trustee, the Administrator and the Registrar of the Fund is BOCI-Prudential Trustee Limited, which is a registered trust company in Hong Kong and a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited. BOC Group Trustee Company Limited is owned by Bank of China (Hong Kong) Limited and BOC International Holdings Limited, which are subsidiaries of Bank of China Limited. The principal activity of the Trustee is the provision of trustee services.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other assets forming part of the assets of each Sub-Fund and hold them in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, such investments, cash and registrable assets shall be registered in the name of or to the order of the Trustee and be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof. The Trustee may, from time to time appoint such person or persons (including a connected person) as custodian, co-custodians, or sub-custodian in respect of the whole or any part of the assets of any Sub-Fund and may empower any such custodian or co-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodians. The fees and expenses of such custodian, co-custodian, and sub-custodians or any persons appointed by the Trustee in relation to the relevant Sub-Fund shall, if approved by the Manager, be paid out of the relevant Sub-Fund.

The Trustee shall (A) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of delegate, agent, nominee, custodian, co-custodian or sub-custodian which are

appointed for the custody and/or safekeeping of any of the investments, cash, assets or other property comprised in the Sub-Fund of the Fund (each a “**Correspondent**”); and (B) be satisfied that each Correspondent retained remains suitably qualified and competent on an ongoing basis to provide the relevant services to the Fund or any Sub-Fund. Provided that the Trustee has discharged its obligations set out in (A) and (B) the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a connected person of the Trustee. The Trustee shall remain liable for any act or omission of any Correspondent that is a connected person of the Trustee as if the same were the act or omission of the Trustee.

The Trustee shall not be responsible for any act or omission of Euroclear Bank S.A./N.V., Clearstream Banking, S.A. or any other such central depository or clearing and settlement system in relation to any investment deposited with such central depository or clearing and settlement system.

Under the Trust Deed, the Trustee and its directors, officers, employees, delegates and agents shall be entitled for the purpose of indemnity against any actions, proceedings, liabilities, costs, claims, damages, expenses (including all reasonable legal, professional and other similar expenses) or demands to which it may be put or asserted against, or may incur or suffer whether directly or indirectly, or which are or may be imposed on the Trustee in performing its obligations or functions, or exercising its powers, authorities or discretions under the Trust Deed or relating to a Sub-Fund to have recourse to the assets of the relevant Sub-Fund or any part thereof but shall not have a right of recourse to the assets of any other Sub-Fund. Notwithstanding the foregoing, the Trustee shall not be exempted from or indemnified against any liability imposed under the laws of Hong Kong (including under the Trustee Ordinance) or for breach of trust through fraud or negligence for which it may be liable in relation to its duties, or be indemnified against such liability by Unitholders or at Unitholders' expense.

The Manager is solely responsible for making investment decisions in relation to the Fund and/or each Sub-Fund. The Trustee shall take reasonable care to ensure that the investment and borrowing limitations set out under the section headed “**Investment Considerations**” and any specific investment and borrowing limitations as set out in the relevant Appendix as they relate to a Sub-Fund and the conditions under which such Sub-Fund is authorised pursuant to the SFO are complied with and save for the aforesaid, the Trustee is not responsible and has no liability for any investment decision made by the Manager.

BOCI-Prudential Trustee Limited has also been appointed as the Registrar of the Fund. The Registrar is responsible for maintaining the register of Unitholders, which will be kept at the registered office of the Registrar in Hong Kong.

BOCI-Prudential Trustee Limited will also be responsible for providing transfer agency services to the Fund and the Sub-Funds, including but not limited to, processing applications for the subscription, conversion and redemption of the Units.

The Trustee, the Administrator and the Registrar is not responsible for the preparation or issue of this Explanatory Memorandum other than the disclosures on the profiles of the Trustee, the Administrator and the Registrar as set out herein.

### *Custodian*

Bank of China (Hong Kong) Limited (“**BOCHK**”) has been appointed as the custodian of the 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 owns BOC Credit Card (International) Limited, an asset management company, a brokerage arm as well as a life insurance company.

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 an extensive network of branches and ATM, and servicing more than 600,000 corporates and several 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. BOCHK is also present in most of the ASEAN countries to better service the local and international communities.

Pursuant to the custodian agreement, BOCHK will act as the custodian of the Fund’s assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custodian agreement. The appointment of the Custodian may be terminated by not less than ninety (90) days’ notice in writing. The Trustee reserves the right to change the custodian arrangements described above by agreement with the Custodian, subject to the terms of the custodian agreement.

### *Authorised Distributors*

The Manager may appoint one or more Authorised Distributor(s) to market, promote, sell and/or distribute Units of one or more Sub-Fund(s), and to receive applications for subscription, redemption and/or conversion of Units.

Where application for Units is made through an Authorised Distributor, Units may be registered in the name of a nominee company of the Authorised Distributor through whom the applicant applies for the

Units. As a result of this arrangement, the applicant will be dependent on the person in whose name the applicant's Units are registered to take action on his/her behalf.

Investors who apply for subscription, redemption and/or conversion of Units through Authorised Distributor(s) should note that such Authorised Distributor(s) may impose earlier dealing deadlines for receiving instructions for subscriptions, redemptions or conversions. Investors should pay attention to the arrangements of the Authorised Distributor(s) concerned.

The Manager may pay or share any of the fees received by it (including any Subscription Charge, Redemption Charge, Switching Fee and management fees) with such Authorised Distributors. For the avoidance of doubt, any fees, costs and expenses payable to the Authorised Distributor(s) arising out of any advertisement or promotional activities in connection with the Fund or the Sub-Fund(s) will not be paid from the assets of the Fund or the Sub-Fund(s).

#### ***Other Service Providers***

The Trustee or the Manager may appoint other service providers to provide services in respect of a Sub-Fund. Details of such other service providers (if any) are set out in the relevant Appendix.



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## INVESTMENT CONSIDERATIONS

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### ***Investment Objective and Policies***

The investment objective and policies of each Sub-Fund and specific risks, as well as other important details, are set forth in the Appendix hereto relating to the Sub-Fund.

There may not be any fixed asset allocation by geographical locations for certain Sub-Funds. The expected asset allocations for a Sub-Fund (if any) are for indication only. In order to achieve the investment objectives, the actual asset allocations may in extreme market conditions (such as economic downturn or political turmoil in the markets in which a substantial portion of the assets of a Sub-Fund is invested or changes in legal or regulatory requirements or policies) vary significantly from the expected asset allocations.

Any changes in the investment objective and/or policy which are not immaterial changes will be subject to the prior approval of the SFC and notified to the affected Unitholders by at least one month's prior written notice (or such other notice period as agreed with the SFC). Set out below are the overriding principles and requirements that must be satisfied in order for any changes to be immaterial changes:

- (a) the changes do not amount to a material change to the relevant Sub-Fund;
- (b) there will be no material change or increase in the overall risk profile of the relevant Sub-Fund following the changes; and
- (c) the changes do not materially prejudice the rights or interests of Unitholders of the relevant Sub-Fund.

### ***Investment and Borrowing Restrictions***

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager and borrowing restrictions. Unless otherwise disclosed in the relevant Appendix, each of the Sub-Funds is subject to the investment restrictions and borrowing restrictions set out in Schedule 1 to this Explanatory Memorandum.

### ***Breach of Investment and Borrowing Restrictions***

If the investment and borrowing restrictions for a Sub-Fund are breached, the Manager shall as a priority objective take all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the Unitholders of the relevant Sub-Fund.

### ***Securities Lending, Sale and Repurchase and Reverse Repurchase Transactions***

Where it is disclosed in the relevant Appendix, a Sub-Fund may engage in securities lending, sale and repurchase and/or reverse repurchase transactions. A Sub-Fund may engage in securities lending, sale and repurchase and/or reverse repurchase transactions provided that they are in the best interests of Unitholders of the relevant Sub-Fund to do so and the associated risks have been properly mitigated and addressed. Information on a Sub-Fund's securities financing transactions will be included in the annual report of the Sub-Fund. A summary of the policy of the Manager in relation to securities financing transactions is set out in Schedule 2 to this Explanatory Memorandum.

### ***Bond Connect***

Where it is disclosed in the relevant Appendix, a Sub-Fund may invest in the CIBM via Bond Connect.

Bond Connect is a new 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**"), China Central Depository & Clearing Co., Ltd, Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

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

- 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 PBOC on 21 June 2017;
- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" (中國人民銀行上海總部"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 PBOC on 22 June 2017; and
- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in Mainland China, eligible foreign investors will be allowed to invest in the bonds circulated in the CIBM through the northbound trading of Bond Connect ("**Northbound Trading Link**"). There will be no investment quota for Northbound Trading Link.

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 Mainland 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.

### ***Liquidity Risk Management***

The Manager has established a liquidity risk 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 each Sub-Fund will facilitate compliance with the Sub-Fund's obligation to meet redemption requests. Such policy, combined with liquidity management tools of the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The day-to-day liquidity risk management of the Sub-Funds is carried out by the Manager's liquidity risk management function which is functionally independent from the portfolio investment function. The oversight of the liquidity risk management function will be performed by a risk management committee consisting of responsible officers and senior staff such as the chief executive officer, head of risk, head of legal and compliance, head of investment, head of operations. The committee generally meets on a need basis. A liquidity report of each Sub-Fund will be generated by the Manager's risk management team each month and will be submitted to the risk management committee. Exceptions on liquidity risk related issues will be escalated to the risk management committee.

The Manager would regularly assess the liquidity of each Sub-Fund's assets under the current and likely future market conditions. In particular, for high yield or unrated debt securities and emerging market assets, the Manager intends to maintain a more diversified investment portfolio with different levels of liquidity and avoid concentrating investment in any one investment, particularly investments which are less liquid. The Manager may also set an internal limit as to each individual investment that may be held by a Sub-Fund.

The Manager may also be in regular communication with distributors and substantial investors of the relevant Sub-Fund in order to receive updates on investor profile and their historical and expected redemption patterns. Through such communication, the Manager can make better assessment as to the expected redemptions (especially substantial redemptions) from the relevant Sub-Fund in the future.

The Manager may use a range of quantitative metrics and qualitative factors in assessing the liquidity of a Sub-Fund's assets including the following:

- the volume and turnover in the security;
- (where the price is determined by the market) the size of the issue and the portion of the issue that the Manager plans to invest in;
- the cost and timeframe to acquire or sell the securities;
- an independent analysis of historic bid and offer prices which may indicate the relative liquidity and marketability of the security; and
- the quality and number of intermediaries and market makers dealing in the security concerned.

The Manager will classify the assets of each Sub-Fund into different liquidity categories. For example, for a Sub-Fund which invests in bonds, the liquidity of the bonds will be categorised into 3 categories: (1) highly liquid bonds (e.g. government bonds); (2) liquid bonds (e.g. corporate bonds with 3 or more market makers); and (3) less liquid bonds (e.g. corporate bonds with 2 or less market makers).

The Manager will also perform liquidity stress testing on each Sub-Fund on an ongoing basis; normally on a monthly basis but in times of adverse market conditions or during the period where there are large redemption requests, the stress tests will be performed on a daily basis, if necessary.

The following tools may be employed by the Manager to manage liquidity risks:

- the Manager may, with the approval of the Trustee, limit the number of Units of any Sub-Fund redeemed on any Redemption Day to 10% of the total number of Units of the relevant Sub-Fund in issue, subject to the conditions under the heading entitled “**Restrictions on Redemption**” in the section headed “**Redemption of Units**”. If such limitation is imposed, this would restrict the ability of a Unitholder to redeem in full the Units he intends to redeem on a particular Redemption Day;
- subject to the restrictions in Schedule 1 to this Explanatory Memorandum, the Manager may borrow in respect of a Sub-Fund to meet redemption requests;
- the Manager may suspend redemption under exceptional circumstances as set out under the heading entitled “**Suspension**” in the section headed “**Valuation and Suspension**”. During such period of suspension, Unitholders would not be able to redeem their investments in the relevant Sub-Fund; and
- the Manager may, in calculation of the Issue Price, impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc (see “**Investing in the Fund – Issue Price**” above) and, in calculation of the Redemption Price, impose deductions to compensate for the difference between the price at

which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc(see “*Redemption of Units – Redemption Price*” above), to protect the interest of remaining unitholders. As a result of such adjustment, the Issue Price or the Redemption Price, (as the case may be) will be higher or lower than the Issue Price or the Redemption Price (as the case may be) which otherwise would be if such adjustment has not been made.

In practice, the Manager will consult the Trustee before the use of any liquidity risk management tools. Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risk.

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## **RISK FACTORS**

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Investors should consider the following risks and any additional risk(s) relating to any specific Sub-Fund, contained in the relevant Appendix, before investing in any of the Sub-Funds. Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not a Sub-Fund is suitable for them, they should obtain independent professional advice.

### ***Risk of not achieving investment objective***

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

### ***Investment risk***

Investments involve risks. Each Sub-Fund's investment portfolio may fall in value due to any of the key risk factors set out in this Explanatory Memorandum and the Appendix for the relevant Sub-Fund and therefore your investment in the Sub-Fund may suffer losses. Each Sub-Fund is not principal guaranteed. Investment in a Sub-Fund is not in the nature of a deposit in a bank account and is not protected by any government, government agency or other guarantee scheme which may be available to protect the holder of a bank deposit account. There is no guarantee that in any time period, particularly in the short term, a Sub-Fund's portfolio will achieve appreciation in terms of capital growth. Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up. There is no guarantee of the repayment of principal.

### ***Market risk***

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

There can be no assurance that an investor will achieve profits or avoid losses, significant or otherwise. The value of investments and the income derived from such investments may fall as well

as rise and investors may not recoup the original amount invested in the Sub-Funds. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets, there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons and as a result, may have adverse impact to the relevant Sub-Fund and its investors.

### ***Equity investment risks***

A Sub-Fund may invest directly or indirectly in equity securities. Investing in equity securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. As a result, the market value of the equity securities that it invests in may go down as well as up. Factors affecting the equity securities are numerous, including but not limited to general market risks, changes in investment sentiment, political environment, economic environment, issuer-specific factors and the business and social conditions in local and global marketplace. Securities exchanges typically have the right to suspend or limit trading in any security traded on the relevant exchange; a suspension will render it impossible to liquidate positions and can thereby expose the relevant Sub-Fund to losses. The government or the regulators may also implement policies that may affect the financial markets which may have a negative impact on the relevant Sub-Fund.

### ***Volatility risk***

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

### ***Risk relating to small- and mid-capped companies***

A Sub-Fund may invest in the securities of small and/or mid-capped companies. Investing in these securities may expose such Sub-Fund to risks such as lower liquidity, greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle. Their prices are also more volatile to adverse economic developments than those of larger capitalisation companies in general.

### ***Risks of investing in IPO securities***

A Sub-Fund may invest in initial public offers (“**IPOs**”) securities. The prices of securities involved in initial public offers (“**IPOs**”) are often subject to greater and more unpredictable price changes than more established securities. There is the risk that there are inadequate trading opportunities generally or allocations for IPOs which the Manager wishes or is able to participate in. Furthermore, the liquidity and volatility risks associated with investments or potential investments in IPO securities may be difficult to assess, due to the lack of trading history of such IPO securities. These risks may have adverse impact on the relevant Sub-Fund and its investors.

### ***Risks relating to debt securities***

- *Credit risk*

Investment in bonds or other debt securities involve credit/default risk of the issuers. An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security’s liquidity, making it more difficult to sell. A Sub-Fund’s investment is also subject to the risk that issuers may not make timely payments on principal and/or interests of the securities they issue. If the issuers of any of the securities in which the Sub-Fund’s assets are invested default, the performance of the Sub-Fund will be adversely affected.

The debt securities that a Sub-Fund invests in may be offered on an unsecured basis without collateral. In such circumstances, the relevant Sub-Fund will rank equally with other unsecured creditors 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 the relevant fixed income instrument issued by it only after all secured claims have been satisfied in full. The relevant Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

A Sub-Fund may hold cash and deposits in banks or other financial institutions and the extent of governmental and regulatory supervision may vary. The Sub-Fund might suffer a significant or even total loss in the event of insolvency of the banks or financial institutions.

- *Credit ratings risk*

The ratings of debt securities by Moody’s Investor Services, Standard & Poor’s and Fitch’s are a generally accepted barometer of credit risk. They are, however, subject to certain limitations from an investor’s standpoint and do not guarantee the creditworthiness of the security and/or their issuer at all times. The rating of an issuer is heavily weighted by past performance and does not necessarily reflect probable future conditions. Rating agencies might not always change their credit rating of an issuer in a timely manner to reflect events that could affect the issuer’s ability to make scheduled payment on its obligations. In addition, there may be varying degrees of difference in credit risk of securities within each rating category.

- *Credit rating downgrading risk*



The credit rating assigned to a security or an issuer may be re-evaluated and updated based on recent market events or specific developments. As a result, investment grade securities may be subject to the risk of being downgraded to below investment grade securities. Similarly, an issuer having an investment grade rating may be downgraded, for example, as a result of deterioration of its financial conditions. In the event of downgrading in the credit ratings of a security or an issuer relating to a security, a Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities that are being downgraded, subject to the investment objectives of the relevant Sub-Fund. In the event of investment grade securities being downgraded to below investment grade securities and such securities continued to be held by the Sub-Fund, the Sub-Fund will also be subject to the risk associated with lower-rated or unrated securities outlined in the following paragraph.

- *Credit rating agency risk*

The credit appraisal system in the Mainland China and the rating methodologies employed in the Mainland China may be different from those employed in other markets. Credit ratings given by the Mainland China rating agencies may therefore not be directly comparable with those given by other international rating agencies.

- *Risk associated with lower-rated or unrated securities*

A Sub-Fund may invest in securities which are below investment grade by internationally recognised credit rating agencies or are lower-rated by Mainland China credit rating agencies (including high yield bonds), or which are unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated, lower yielding securities and may be subject to higher volatility, greater fluctuation in value and higher chance of default. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. The market for these securities may be less active, making it more difficult to sell the securities. Valuation of these securities is more difficult and thus the relevant Sub-Fund's prices may be more volatile.

The value of lower-rated or unrated corporate bonds may be affected by investors' perceptions. When economic conditions appear to be deteriorating, lower-rated or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

- *Interest rates risk*

Changes in interest rates may affect the value of a debt security as well as the financial markets in general. Debt securities (such as bonds) are more susceptible to fluctuation in

interest rates and may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes. If the debt securities held by a Sub-Fund fall in value, the Sub-Fund's value will also be adversely affected.

- *Valuation risk*

The value of debt securities that a Sub-Fund invests may be subject to the risk of mispricing or improper valuation, i.e. operational risk that the debt securities are not priced properly. Valuations of quoted or listed debt securities are primarily based on the valuations from independent third party sources where the prices are available. However, in the case where independent pricing information may not be available such as in extreme market conditions or break down in the systems of third party sources, the value of such debt securities may be based on certification by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager after consultation with the Trustee. Valuations in such circumstance may involve uncertainty and judgemental determination.

In the event of adverse market conditions where it is not possible to obtain any reference quotation from the market at the relevant time of valuation, the latest available quotations of the relevant debt securities may be used to estimate the fair market value. Alternatively, the Manager after consultation with the Trustee may, permit some other method of valuation to be used to estimate the fair market value of such debt securities including the use of quotation of other debt securities with very similar attributes. Such valuation methodology may not equal to the actual liquidation price due to liquidity and size constraints. If valuation is proven to be incorrect, this will affect the Net Asset Value calculation of the relevant Sub-Fund.

The valuation of unlisted debt securities is more difficult to calculate than listed debt securities. Normally, unlisted debt securities are valued at their initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition thereof (including in each case the amount of the stamp duties, commissions and other acquisition expenses) provided that the value of any such unlisted debt securities shall be determined on a regular basis by a professional person (which may be the Manager) approved by the Trustee as qualified to value such unlisted debt securities. Such professional person may value the unlisted debt securities by reference to the prices of other comparable unlisted debt securities. The trading of unlisted debt securities may not be transparent and the prices of unlisted debt securities may not be openly displayed. There is a risk that such professional person is not aware of all the trading in unlisted debt securities and may use prices which may be historical only and may not reflect recent trading in the debt securities concerned. In such circumstance, the valuation of the unlisted debt securities may not be accurate as a result of incomplete price information. This would have impact on the calculation of the Net Asset Value of the relevant Sub-Fund.

- *Unlisted debt securities risk*

The debt securities in which a Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the relevant Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the relevant Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the relevant Sub-Fund may suffer losses in trading such securities.

- *Risk associated with senior unsecured debt and subordinated debt*

Investments in subordinated debt will have a lower priority of claim in the event of the relevant issuer's liquidation or bankruptcy as they rank behind holders of unsubordinated debt securities but before holders of equity securities. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of subordinated debt securities only after all claims by holders of unsubordinated debt securities have been satisfied in full.

In respect of the investments in senior unsecured debt, notwithstanding its senior status, senior unsecured debt may not benefit from security that effectively renders that other instrument more likely to be repaid in an insolvency than unsecured senior debt.

A Sub-Fund investing in senior unsecured debt and subordinated debt is therefore exposed to higher credit / insolvency risk of its counterparties as a holder of senior unsecured debt and subordinated debt securities, and may suffer significant losses as a result.

- *Risk associated with convertible bonds*

Convertible bonds are a hybrid between debt and equity, permitting holders to convert into shares in the company issuing the bond at a specified future date. As such, convertibles will be exposed to equity movement and greater volatility than straight bond investments. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

***Risk associated with collateralised and/or securitised products (e.g. asset backed securities and mortgage backed securities)***

A Sub-Fund may invest in collateralised and/or securitised products (e.g. asset backed securities and mortgage backed securities), which may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks and risks that the payment

obligation relating to the underlying assets are not met, which may adversely impact the returns of the securities.

### ***Risks of investing in other funds***

A Sub-Fund may invest in underlying funds which are not regulated by the SFC and will be subject to the risks associated with the underlying funds. In addition to the expenses and charges charged by such Sub-Fund, investor should note that there are additional fees involved when investing into these underlying funds, including fees and expenses charged by investment manager of these underlying funds as well as fees payable by the relevant Sub-Fund during its subscription to or redemption from these underlying funds. Furthermore, there can be no assurance that 1) the liquidity of the underlying funds will always be sufficient to meet redemption request as and when made; and 2) investment objective and strategy will be successfully achieved despite the due diligence procedures undertaken by the Manager and the selection and monitoring of the underlying funds, because the Manager does not have control of the investments of the underlying funds. These factors may have adverse impact on the relevant Sub-Fund and its investors. If a Sub-Fund invests in an underlying fund managed by the Manager or connected person of the Manager, potential conflict of interest may arise. Please refer to the section headed “***General Information - Conflicts of Interest***” for details under the circumstances.

### ***Borrowing risks***

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

### ***Risks relating to repurchase agreements and reverse repurchase agreements***

If so disclosed in the relevant Appendix, the Manager may enter into repurchase / reverse repurchase transactions or other similar over-the-counter transactions in respect of the relevant Sub-Fund.

In respect of a Sub-Fund which may enter into repurchase agreements, in the event of the failure of the counterparty with which collateral has been placed, the relevant 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 or market movements.

On the other hand, for a Sub-Fund which may enter into reverse repurchase agreements, in the event of the failure of the counterparty with which cash has been placed, the relevant 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.

### ***Emerging markets risks***

Certain countries in which a Sub-Fund may invest are considered as emerging markets. Investments in emerging markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Investments in emerging markets will also be sensitive to any change in political, social or economic development in the region. Many emerging countries have historically been subject to political instability which may affect the value of securities in emerging markets to a significant extent. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk.

The securities markets of some of the emerging countries in which a Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries are not as large as the more established securities markets and have a substantially lower trading volume. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital.

There are also possibilities of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of the Sub-Funds' investments. In addition, it may be difficult to obtain and enforce a judgment in a court in an emerging country.

Underlying investments of emerging market funds may also become illiquid which may constrain the Manager's ability to realise some or all of the portfolio. Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to some countries in which a Sub-Fund may invest may differ from those applicable in developed countries, for example, less information is available to investors and such information may be out of date.

### ***Sovereign risks***

Certain developing countries and certain developed countries are especially large debtors to commercial banks and foreign governments. Investment in debt obligations issued or guaranteed by governments or their agencies of such countries may involve a high degree of political, social and economic risk. The willingness or ability of a governmental entity to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its

foreign reserves, the availability of sufficient foreign exchange on the date a payment is due and the relative size of the debt service burden to the economy as a whole.

Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others agencies abroad to reduce principal and arrearage on their debts. However, failure to implement economic reforms or achieve a required level of economic performance or repay debts when due may result in the cancellation of these third parties' commitments to continuously lend funds to a governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis.

In case of default, holders of sovereign debts (including a Sub-Fund) may be requested to participate in the rescheduling of such debt and to extend further loans to the relevant governmental entities. In addition, a Sub-Fund may invest in securities issued or guaranteed by the government of a country with a sovereign credit rating below investment grade. The performance and value of the Sub-Fund could deteriorate should there be any adverse credit events in the sovereign, in particular if there is downgrading of the sovereign credit rating or a default or bankruptcy of a sovereign occurs. There are no bankruptcy proceedings by which sovereign debt on which a governmental entity has defaulted may be recovered in whole or in part.

### ***Concentration risk***

A Sub-Fund's investments may be concentrated in a specific country/region/sector/asset class. A Sub-Fund's portfolio may not be well diversified in terms of the number of holdings and the number of issuers of securities that the Sub-Fund may invest in. Such Sub-Fund may be adversely affected by or depend heavily on the performance of those securities. Investors should also be aware that such Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity or bond fund. The value of such Sub-Fund may be more susceptible to fluctuations in value resulting from limited number of holdings or from adverse economic, political, policy, foreign exchange, liquidity, tax legal or regulatory event affecting the respective country/region/sector/asset class.

### ***Settlement risk***

Settlement procedures in emerging countries are frequently less developed and less reliable and may involve the relevant Sub-Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. A Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. A Sub-Fund may incur substantial losses if its counterparty fails to pay for securities such Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to such Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for a Sub-Fund if investment opportunities are missed or if a Sub-Fund is unable to acquire or dispose of a security as a result.

### ***Custodial risk***

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

### ***Counterparty risk***

Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, futures and options. To the extent that a counterparty defaults on its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may experience a decline in the value and incur costs associated with its rights attached to the security. The Sub-Fund may sustain substantial losses as a result.

### ***Currency and foreign exchange risk***

A Sub-Fund may also issue Classes denominated in a currency other than the Base Currency of that Fund or the currency of its underlying investment. A Sub-Fund may be invested in part in assets quoted in currencies other than its Base Currency or the relevant Class Currency. The performance of such Sub-Fund will therefore be affected by movements in the exchange rate between the currencies in which the assets are held and the Base Currency of such Sub-Fund or the relevant Class Currency. The Net Asset Value of such Sub-Fund may also be affected unfavourably by changes in exchange rate controls. Since the Manager aims to maximise returns for such Sub-Fund in terms of its Base Currency, investors in such Sub-Fund may be exposed to additional currency risk. These risks may have adverse impact on the relevant Sub-Fund and its investors.

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

Any changes in exchange control regulations may cause difficulties in the repatriation of funds. Dealings in a Sub-Fund may be suspended if the relevant Sub-Fund is unable to repatriate funds for the purpose of making payments on the redemption of Units. For further details on suspension of dealings in a Sub-Fund, please refer to the section headed “***Valuation and Suspension - Suspension***” below.

### ***China market risk***

A Sub-Fund investing in the China market is subject to the risks of investing in emerging markets generally and the risks specific to the China market.

Since 1978, the Mainland China government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Chinese economy, moving from the previous planned economy system. However, many of the economic measures are experimental or unprecedented and may be subject to adjustment and modification. Any significant change in Mainland China's political, social or economic policies may have a negative impact on investments in the China market.

The regulatory and legal framework for capital markets and joint stock companies in the Mainland China may not be as well developed as those of developed countries. Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Chinese securities markets may not be well tested and may be subject to increased risks of error or inefficiency.

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

### ***RMB currency and conversion risk***

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

Where a Sub-Fund invests in RMB denominated investments, the value of such investments may be affected favourably or unfavourably depending on the changes in exchange rate between RMB and the Base Currency of the relevant Sub-Fund. There can be no assurance that RMB will not be subject to devaluation. Any devaluation of the RMB could adversely affect the value of investors' investments in the relevant Sub-Fund.



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 (e.g. HKD) will not depreciate. Any depreciate of RMB could adversely affect the value of the investor's investment in the relevant Sub-Fund.

Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. The CNH rate may be at a premium or discount to the exchange rate for CNY and there may be significant bid and offer spreads. As such, CNH does not necessarily have the same exchange rate and may not move in the same direction as CNY. Any divergence between CNH and CNY may adversely impact the value of the relevant Sub-Fund and thus its investors.

The supply of RMB and the conversion of foreign currency into RMB are subject to exchange control policies and restrictions imposed by the mainland authorities. Liquidity of RMB could deteriorate due to government controls and restrictions which would adversely affect investors' ability to exchange RMB into other currencies as well as the conversion rates of RMB. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time. As such, in respect of a Sub-Fund which offers RMB denominated Class(es), in case of sizable redemption requests for the RMB denominated Class(es) are received, the Manager has the absolute discretion to delay any payment of redemption requests from the RMB denominated Class(es) where it determines that there is not sufficient RMB for currency conversion by the relevant Sub-Fund for settlement purpose. There is also a risk that payment of redemptions and/or dividend payment in RMB (if any) may be delayed due to the exchange controls and restrictions applicable to RMB.

### ***RMB Class(es) related risk***

In respect of a Sub-Fund which offers RMB denominated Class(es), when calculating the value of the RMB denominated Class(es), CNH will be used. As mentioned in the risk factor headed "RMB currency and conversion risk" above, the CNH rate may be at a premium or discount to the exchange rate for CNY and there may be significant bid and offer spreads. The value of the RMB denominated Class(es) thus calculated will be subject to fluctuation.

The exchange rate of RMB may rise or fall. There can be no assurance that RMB will not be subject to devaluation. Any devaluation of RMB could adversely affect the value of investors' investments in the RMB denominated Class(es) of the relevant Sub-Fund. Non-RMB based (e.g. Hong Kong) investors may have to convert HKD or other currencies into RMB when investing in the RMB denominated Class(es). Subsequently, investors may also have to convert the RMB redemption proceeds (received when selling the Units) and RMB distributions received (if any) back to HKD or other currencies. During these processes, investors will incur currency conversion costs and may suffer losses in the event that RMB depreciates against HKD or such other currencies upon receipt of the RMB redemption proceeds and/or RMB distributions (if any). There is no guarantee that the value of RMB against the investors' base currencies (e.g. HKD) will not depreciate.

For RMB denominated Class(es), since the Unit prices are denominated in RMB but the relevant Sub-Fund may not be fully invested in RMB-denominated underlying investments and its Base Currency may not be RMB, so even if the prices of the non-RMB denominated underlying investments and/or

value of the Base Currency rise or remain stable, investors may still incur losses if RMB appreciates against the currencies of the non-RMB denominated underlying investments and/or the Base Currency more than the increase in the value of the non-RMB denominated underlying investments and/or the Base Currency.

Furthermore, under the scenario where RMB appreciates against the currencies of the non-RMB denominated underlying investments and/or the Base Currency, and the value of the non-RMB denominated underlying investments decreased, the value of investors' investments in RMB denominated Class(es) may suffer additional losses.

### ***Risks associated with CIBM***

Market volatility and potential lack of liquidity due to low trading volume of certain fixed income securities in the CIBM market may result in prices of certain debt securities traded on such market fluctuating significantly. A 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 relevant Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

A 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 relevant 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, a Sub-Fund is subject to the risks of default or errors on the part of such third parties.

Investing in the CIBM via Bond Connect is also subject to regulatory risks. The relevant rules and regulations on this regime 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 CIBM, a Sub-Fund's ability to invest in the CIBM will be adversely affected. In such event, the relevant Sub-Fund's ability to achieve its investment objective will be negatively affected.

In addition, there is limited specific guidance by the Mainland tax authorities on the treatment of income tax and other tax categories payable in respect of trading in the CIBM by foreign institutional investors via the Bond Connect. By investing in the CIBM, a Sub-Fund may be at risk of being subject to Mainland Chinese taxes. There is a possibility that the current tax laws, rules, regulations and practice in Mainland China and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The relevant 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 relevant Sub-Fund.

***“Dim Sum” bond (i.e. bonds issued outside of Mainland China but denominated in RMB) market risk***

The “Dim Sum” bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of a Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of the issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

***Risk associated with Urban Investment Bonds***

In view of the limitations on directly raising funds, local governments in Mainland China have set up numerous entities known as LGFVs to borrow and fund local development, public welfare investment and infrastructure projects. Urban Investment Bonds are issued by LGFVs. Local governments may be seen to be closely connected to Urban Investment Bonds, as they are shareholders of the LGFVs issuing such bonds. However, Urban Investment Bonds issued by LGFVs are typically not guaranteed by the relevant local governments in Mainland China or the central government of the PRC. As such, local governments in Mainland China or the central government of the PRC are not obliged to support any LGFVs in default. The LGFVs’ ability to repay debts depends on various factors, including the nature of the business of such LGFVs, the financial strength of such LGFVs and the extent to which the relevant local governments are prepared to support such LGFVs. Slower revenue growth at some local governments may constrain their capacity to provide support, while regulatory constraints may also limit local governments’ ability to inject land reserves into LGFVs. Further, local governments have taken on debt in various other forms, and recent analyses show that increased financing activities have posed a risk to local government finances. If a LGFV encounters financial difficulties, without the local government’s support, there is a risk of possible defaults by the LGFV. In the event that the LGFVs default on payment of principal or interest of the Urban Investment Bonds, a Sub-Fund could suffer substantial loss, and as a result, the relevant Sub-Fund’s Net Asset Value could be adversely affected.

***Mainland China tax risk***

For details of the Manager’s PRC tax provision policy in respect of a Sub-Fund, please refer to subsection headed “**Mainland China Taxation**” under the section headed “**TAXATION**” below.

There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of the Sub-Fund’s investment in the PRC. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. There is a risk that taxes may be levied in future on a Sub-Fund for which no provision is made, which may potentially cause substantial losses to the relevant Sub-Fund.

### ***Derivative and structured product risk***

A Sub-Fund may invest in derivatives such as options, futures and convertible securities, and in depositary receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices such as participation notes, equity swaps and equity linked notes, which are sometimes referred to as “structured products”. Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. Investment in these instruments can be illiquid, if there is no active market in these instruments. Such instruments are complex in nature. Therefore there are risks of mispricing or improper valuation and possibilities that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties or a loss in the value of the relevant Sub-Fund.

These instruments will also be subject to insolvency or default risk of the issuers or counterparties. In addition, investment through structured products may lead to a dilution of performance of such Sub-Funds when compared to a fund investing directly in similar assets. Besides, many derivative and structured products involve an embedded leverage. The leverage element/component of a derivative can result in a loss significantly greater than the amount invested in the derivative by the relevant Sub-Fund. Exposure to derivatives may lead to a high risk of significant loss by the relevant Sub-Fund.

### ***Risk associated with instruments with loss-absorption features***

The Sub-Fund may invest in instruments with loss-absorption features which typically include terms and conditions specifying that the instrument is subject to being written off, written down, or converted to ordinary shares on the occurrence of a trigger event (i.e. when the issuer, or the resolution entity if the issuer is not a resolution entity, is near or at the point of non-viability; or when the issuer’s capital ratio falls to a specified level), such as total loss-absorbing capacity eligible instruments, contingent convertible debt securities, senior non-preferred debt and instruments which qualify as Additional Tier 1 or Tier 2 capital instruments as defined in the Banking (Capital) Rules.

Debt instruments with loss-absorption features are subject to greater risks when compared to traditional debt instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of a pre-defined trigger event (e.g. when the issuer is near or at the point of non-viability or when the issuer’s capital ratio falls to a specified level), which are likely to be outside of the issuer’s control. Such trigger events are complex and difficult to predict and may result in a significant or total reduction in the value of such instruments.

In the event of the activation of a trigger, there may be potential price contagion and volatility to the entire asset class. Debt instruments with loss-absorption features may also be exposed to liquidity, valuation and sector concentration risk.

Please also refer to the risk factors headed “**Risks associated with investment in contingent convertible bonds**” and “**Risks associated with investment in senior non-preferred debts**” below for further details on the risks relating to contingent convertible bonds and senior non-preferred debts, which are examples of the debt instruments with loss-absorption features that the Sub-Fund may invest in.

### ***Risks associated with investment in contingent convertible bonds***

The Sub-Fund may invest in contingent convertible debt securities, commonly known as CoCos, which are highly complex and are of high risk. Upon the occurrence of the trigger event, CoCos may be converted into shares of the issuer (potentially at a discounted price), or may be subject to the permanent write-down to zero. Coupon payments on CoCos are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.

Contingent convertible bonds are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), contingent convertible bonds will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent writedown to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis.

Contingent convertible bonds are risky and highly complex instruments. Coupon payments on contingent convertible bonds are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time. Contingent convertible bonds are also subject to additional risks specific to their structure including:

*Trigger level risk:* Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the trigger events that would require the debt to convert into equity or write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank’s Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios; (ii) a regulatory authority, at any time, making a subjective determination that an institution is “non-viable”, i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer; or (iii) a national authority deciding to inject capital.

*Coupon cancellation:* Coupon payments on some contingent convertible bonds are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed payments. Coupon payments may also be subject to approval by the issuer’s regulator and may be suspended in

the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, contingent convertible bonds may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

*Capital structure inversion risk:* Contrary to the classic capital hierarchy, the Sub-Fund investing in contingent convertible bonds may suffer a loss of capital while equity holders do not, for example, when the loss absorption mechanism of a high trigger/write-down of a contingent convertible bond is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

*Call extension risk:* Some contingent convertible bonds are issued as perpetual instruments and only callable at predetermined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible bonds will be called on a call date. Contingent convertible bonds are a form of permanent capital. The SubFund investing in contingent convertible bonds may not receive return of principal as expected on call date or indeed at any date.

*Conversion risk:* Trigger levels differ between specific contingent convertible bonds and determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the contingent convertible bonds will behave upon conversion. In case of conversion into equity, the Manager might be forced to sell these new equity shares subject to the investment strategy of the Sub-Fund. Given the trigger event is likely to be an event depressing the value of the issuer's common equity, this forced sale may result in the Sub-Fund experiencing some losses.

*Valuation and write-down risk:* Contingent convertible bonds often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible bonds may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose the entire investment value or may be required to accept cash or securities with a value less than the original investment.

*Market value fluctuations due to unpredictable factors:* The value of contingent convertible bonds is unpredictable and will be influenced by many factors including, without limitation (i) creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the contingent convertible bonds; (iii) general market conditions and available liquidity; and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

*Liquidity risk:* In certain circumstances finding a buyer ready to invest in contingent convertible bonds may be difficult and the Sub-Fund may have to accept a significant discount to sell it.

*Sector concentration risk:* Contingent convertible bonds are issued by banking and insurance institutions. Investment in contingent convertible bonds may lead to an increased sector concentration risk. The performance of the Sub-Fund with investment in contingent convertible bonds may therefore

be affected to a larger extent by the overall condition of the financial services industry than for the funds following a more diversified strategy.

*Subordinated instruments:* Contingent convertible bonds will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible bonds, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the contingent convertible bonds shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

*Novelty and untested nature:* The structure of contingent convertible bonds is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

### ***Risks associated with investment in senior non-preferred debts***

The Sub-Fund may invest in senior non-preferred debts. While these instruments are generally senior to subordinated debts, they may be subject to write-down upon the occurrence of a trigger event and will no longer fall under the creditor ranking hierarchy of the issuer. This may result in total loss of principal invested.

### ***Over-the-counter markets risk***

Over-the-counter (“OTC”) markets are subject to less governmental regulation and supervision of transactions (in which many different kinds 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 and that a Sub-Fund will sustain substantial losses as a result.

In addition, certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments. These risks may have adverse impact on the relevant Sub-Fund and its investors.

### ***Hedging risk***

The Manager is permitted, but not obliged, to use hedging techniques such as using futures, options and/or forward contracts to attempt to offset market and currency risks. There is no guarantee that hedging techniques will fully and effectively achieve their desired result. The success of hedging much depends on the Manager's expertise and hedging may become inefficient or ineffective. This may have adverse impact on the relevant Sub-Fund and its investors.

While a Sub-Fund may enter into such hedging transactions to seek to reduce risks, unanticipated changes in currency, interest rates and market circumstances may result in a poorer overall performance of a Sub-Fund. A Sub-Fund may not obtain a perfect correlation between hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the intended hedge or expose the relevant Sub-Fund to risk of loss.

Any expenses arising from such hedging transactions, which may be significant depending on prevailing market conditions, will be borne by the relevant Sub-Fund in relation to which they have been incurred.

### ***Liquidity risk***

Some of the markets in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the relevant Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value. The bid and spreads of the price of such securities may be large and the relevant Sub-Fund may incur significant trading costs. A Sub-Fund may encounter difficulties in valuing and/or disposing of assets at their fair price due to adverse market conditions and/or large-scale redemptions. This may also expose the Sub-Fund to liquidity risks. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such investments. As a result, this may have adverse impact on the relevant Sub-Fund and its investors.

### ***Difficulties in valuation of investments***

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

In addition, market volatility may result in a discrepancy between the latest available issue and redemption prices for the Sub-Fund and the fair value of the Sub-Fund's assets. To protect the interest of investors, the Manager may, after consultation with the Trustee, adjust the Net Asset Value of the



Sub-Fund or the Units, if in the circumstances it considers that such adjustment is required to reflect more accurately the fair value of the Sub-Fund's assets.

Valuation of a Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

### ***Restricted markets risk***

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

### ***Legal, tax and regulatory risk***

Legal, tax and regulatory changes could occur in the future. For example, the regulatory or tax environment for derivative instruments is evolving, and changes in their regulation or taxation may adversely affect the value of derivative instruments. Changes to the current laws and regulations will lead to changes in the legal requirements to which the relevant Sub-Fund may be subject, and may adversely affect the relevant Sub-Fund and its investors.

### ***Risk of termination***

A Sub-Fund may be terminated in certain circumstances which are summarised under the section "***General Information - Termination of Fund or a Sub-Fund***", including where, on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding thereunder shall be less than RMB100,000,000 or its equivalent or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units outstanding thereunder shall be less than RMB5,000,000 or its equivalent (or other amounts disclosed in the Appendix). In the event of the termination of a Sub-Fund, such Sub-Fund would have to distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the relevant Sub-Fund will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any organisational expenses (such as establishment costs) with regard to the relevant Sub-Fund that had not yet been fully amortised would be debited against the Sub-Fund's assets at that time.

### ***Risks associated with securities financing transactions***

A Sub-Fund which engages in securities financing transactions will be subject to the following risks:

- *Risks relating to securities lending transactions*

Securities lending transactions may involve the risk that the borrower may fail to return the securities lent out in a timely manner. In this event, the relevant Sub-Fund could experience delays in recovering its securities and may possibly incur a capital loss. The value of the collateral may fall below the value of the securities lent out.

- *Risks relating to sale and repurchase transactions*

A Sub-Fund may enter into sale and repurchase transactions with respect to securities. Sale and repurchase transactions involve credit risk to the extent that the Sub-Fund's counterparties may avoid such obligations in bankruptcy or insolvency proceedings, thereby exposing the relevant Sub-Fund to unanticipated losses. The amount of credit risk incurred by the relevant Sub-Fund with respect to a particular sale and repurchase transaction will depend in part on the extent to which the obligation of the Sub-Fund's counterparty is secured by sufficient collateral. In the event of the failure of the counterparty with which collateral has been placed, the relevant 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 or market movements.

- *Risks relating to reverse repurchase transactions*

A Sub-Fund may enter into reverse repurchase transactions. If the seller of securities to the Sub-Fund under a reverse repurchase transaction defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the relevant Sub-Fund will seek to dispose of such securities, which action could involve costs or delay. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the relevant Sub-Fund's ability to dispose of the underlying securities may be restricted or the Sub-Fund may have difficulty in realising collateral. It is possible, in a bankruptcy or liquidation scenario, that the relevant Sub-Fund may not be able to substantiate its interest in the underlying securities.

In the event of the failure of the counterparty with which cash has been placed, the relevant 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.

In addition, if a seller defaults on its obligation to repurchase securities under a reverse repurchase transaction, the relevant Sub-Fund may suffer a loss to the extent that it is forced

to liquidate its position in the market, and proceeds from the sale of the underlying securities may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

- *Risks associated with collateral management and re-investment of cash collateral*

Where a Sub-Fund enters into a securities financing transaction or an OTC derivative transaction or securities financing transaction, collateral may be received from or provided to the relevant counterparty.

Notwithstanding that a Sub-Fund may only accept non-cash collateral which is highly liquid, the relevant Sub-Fund is subject to the risk that it will be unable to liquidate collateral provided to it to cover a counterparty default. The relevant Sub-Fund is also subject to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Where cash collateral received by a Sub-Fund is re-invested, the relevant Sub-Fund will be exposed to the risk of a failure or default of the issuer of the relevant security in which the cash collateral has been invested.

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

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

Under a sale and repurchase transaction, the relevant Sub-Fund retains the economic risks and rewards of the securities which it has sold to the counterparty and therefore is exposed to market risk in the event that it must repurchase such securities from the counterparty at the pre-determined price if that pre-determined price is higher than the value of the securities at the time of repurchase. If the Sub-Fund chooses to reinvest the cash collateral received under

the sale and repurchase transaction, it is also subject to market risk arising in respect of such investment.

If the additional income which is generated through finance charges imposed by a Sub-Fund on the counterparty of a reverse repurchase transaction is reinvested, the relevant Sub-Fund will assume market risk in respect of such investments.

### ***Distributions risk***

Distributions may be made in respect of the Distribution Classes. However, there is no guarantee that such distributions will be made nor will there be a target level of distributions payout. A high distribution yield does not imply a positive or high return.

Subject to the disclosure in the relevant Appendix, distributions may be paid out of the capital or effectively out of capital of a Sub-Fund. The Manager may distribute out of the capital of a Sub-Fund if the net distributable income attributable to the relevant Distribution Class during the relevant period is insufficient to pay distributions as declared. A Sub-Fund may also charge all or part of its fees and expenses to capital which means that the Sub-Fund may effectively pay distributions out of capital. **Investors should note that the payment of distributions out of capital or effectively out of capital represents a return or a withdrawal of part of the amount they originally invested or capital gain attributable to that amount. Distributions will result in an immediate decrease in the Net Asset Value of the relevant Units.**

For Accumulation Classes, the Manager does not intend to pay distributions. Accordingly, an investment in the Accumulation Classes may not be suitable for investors seeking income returns for financial or tax planning purposes.

### ***Cross-Class liability***

Multiple Classes of Units may be issued in relation to a Sub-Fund, with particular assets and liabilities of that Sub-Fund attributable to particular Classes. Where the liabilities of a particular Class exceed the assets pertaining to that Class, creditors pertaining to one class may have recourse to the assets attributable to other Classes. Although for the purposes of internal accounting, a separate account will be established for each Class, in the event of an insolvency or termination of that Sub-Fund (i.e. when the assets of that Sub-Fund are insufficient to meet its liabilities), all assets will be used to meet that Sub-Fund's liabilities, not just the amount standing to the credit of any individual Class. However, the assets of that Sub-Fund may not be used to satisfy the liabilities of another Sub-Fund.

### ***Creation of Sub-Funds or New Classes of Units***

Additional Sub-Funds or additional Classes of Units which may have different terms of investment may be established in the future without the consent of, or notification to existing Unitholders. In particular, such additional Sub-Funds or additional Classes may have different terms with regard to fees.

### ***Non-compliance with HKFRS***

The annual and semi-annual reports and accounts of a Sub-Fund will be prepared in accordance with the HKFRS. Investors should note that the valuation rules described in the section headed “***Valuation and Suspension – Calculation of Net Asset Value***” below may not necessarily comply with HKFRS. Under HKFRS, investments should be valued at fair value, and bid and ask pricing is considered to be representative of fair value for long and short listed investments respectively. However, under the valuation basis described in the section headed “***Valuation and Suspension – Calculation of Net Asset Value***” below, listed investments are expected to be valued normally at the last traded price or closing price instead of bid and ask pricing as required under HKFRS.

Also, the cost of establishment of each Sub-Fund will be amortised over the Amortisation Period. Investors should note that this policy of amortisation is not in accordance with HKFRS. However, the Manager has considered the impact of such non-compliance and do not expect this issue to materially affect the results and Net Asset Value of a Sub-Fund. Further, the Manager believes that this policy is fairer and more equitable to the initial investors.

Accordingly, Unitholders should note that the Net Asset Value as described in this Explanatory Memorandum may not necessarily be the same as the net asset value to be reported in the annual and semi-annual reports and accounts of such Sub-Fund as the Manager may make necessary adjustments in the annual accounts to comply with HKFRS.

### ***Foreign Account Tax Compliance***

The Fund and/or each Sub-Fund intend to satisfy the requirements imposed under FATCA (as defined under the section headed “***Foreign Account Tax Compliance***” under the “***Taxation – Hong Kong Taxation***” section below) and the terms of the FFI Agreement to avoid any withholding tax. In the event the Fund or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the terms of the FFI Agreement (as defined under the section headed “***Foreign Account Tax Compliance***” under the “***Taxation – Hong Kong Taxation***” section below), the Fund or such Sub-Fund may be subject to US withholding tax on its “withholdable payments”. The Net Asset Value of the Fund or that Sub-Fund may be adversely affected and the Fund or such Sub-Fund may suffer significant loss as a result.

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 Fund or the relevant Sub-Fund, or a risk of the Fund or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf

of the Fund and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US Internal Revenue Service (“IRS”); (ii) withholding or deducting from such Unitholder’s redemption proceeds or distributions to the extent permitted by applicable laws and regulations; and/or (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds.

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

### ***Conflicts of Interest; Other Activities of the Manager***

Various potential and actual conflicts of interest may arise from the overall investment activities of the Manager and its connected persons for their own accounts and the accounts of others. The Manager and its connected persons may invest for their own accounts and for the accounts of clients in various instruments that have interests different from or adverse to the instruments that are owned by the relevant Sub-Fund. For more information, please refer to the section headed “***General Information - Conflicts of Interest***”.

### ***Effect of Substantial Redemptions***

Substantial redemptions by Unitholders within a short period of time could require the relevant Sub-Fund to liquidate securities and other positions more rapidly than would otherwise be desirable, possibly reducing the value of its assets and/or disrupting its investment strategy. Further, it may be impossible to liquidate a sufficient amount of securities to meet redemptions because a significant part of the portfolio at any given time may be invested in securities for which the market is or has become illiquid. Reduction in the size of the relevant Sub-Fund could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Sub-Fund's ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses.

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, therefore, only suitable for investors who can afford the risks involved. Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.



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## INVESTING IN THE FUND

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### *Classes of Units*

Different Classes of Units may be offered for each Sub-Fund. Although the assets attributable to each Class of Units of a Sub-Fund will form one single pool, each Class of Units may be denominated in a different Class Currency or may have a different charging structure with the result that the Net Asset Value attributable to each Class of Units of a Sub-Fund may differ. In addition, each Class of Units may be subject to different Minimum Initial Subscription Amount, Minimum Subsequent Subscription Amount, Minimum Holding Amount and Minimum Redemption Amount. Investors should refer to the relevant Appendix for the available Classes of Units and the applicable minimum amounts.

### *Initial Offer*

Units of a Sub-Fund or a Class in a Sub-Fund will be offered for the first time at the Initial Offer Price during the Initial Offer Period of such Sub-Fund or such Class as specified in the relevant Appendix.

### *Minimum Subscription Level*

The offering of a Class of Units or a Sub-Fund may be conditional upon the Minimum Subscription Level (if applicable) being received on or prior to the close of the Initial Offer Period.

In the event that the Minimum Subscription Level of a Class of Units or a Sub-Fund is not achieved or the Manager is of the opinion that it is not in the commercial interest of investors or not feasible, as a result of adverse market conditions or otherwise, to proceed with the relevant Class of Units or Sub-Fund, the Manager may in its discretion extend the Initial Offer Period for the relevant Class of Units or Sub-Fund or determine that the relevant Class of Units or the relevant Sub-Fund and the Class or Classes of Units relating to it will not be launched. In such event, the relevant Class of Units or the Sub-Fund and the Class or Classes of Units relating to it shall be deemed not to have commenced.

Notwithstanding the aforesaid, the Manager reserves the discretion to proceed with the issue of Units of the relevant Class of Units or Sub-Fund even if the Minimum Subscription Level has not been achieved.

### *Subsequent Subscription*

Units are available for subscription on each Subscription Day after the expiry of the Initial Offer Period.



### ***Issue Price***

After the close of the Initial Offer Period, the Issue Price per Unit for any Class of a Sub-Fund on a Subscription Day will be calculated by reference to the Net Asset Value per Unit of that Class as at the Valuation Point on the Valuation Day in respect of that Subscription Day (for further details see “*Valuation and Suspension - Calculation of Net Asset Value*” below).

In calculating the Issue Price, the Manager may impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc.

The Issue Price shall be rounded to six decimal places. Any amount corresponding to such rounding will accrue to the relevant Sub-Fund.

### ***Subscription Charge***

The Manager, its agents or delegates may charge a Subscription Charge on the issue of each Unit of a percentage of either (i) the Initial Offer Price or the Issue Price, as the case may be, of such Unit or (ii) the total subscription amount received in relation to an application, as the Manager may at its discretion determine. The maximum and current rate of Subscription Charge (if any) and the manner in which it will be imposed are specified in the relevant Appendix. For the avoidance of doubt, a lower maximum rate of Subscription Charge may be imposed in relation to the issue of Units of a Sub-Fund as compared to other Sub-Funds and also in relation to different Classes of Units of a Sub-Fund.

The Manager may at any time increase the rate of Subscription Charge provided that any increase in the rate of Subscription Charge above the maximum rate may only be made if such increase (i) will not impact on the existing investments of any Unitholder, and (ii) will be subject to any requirements of the Code.

The Manager may on any day differentiate between applicants or Classes of Units as to the amount of the Subscription Charge. The Subscription Charge will be retained by or paid to the Manager, its agents or delegates for their own absolute use and benefit.

### ***Minimum Initial Subscription Amount and Minimum Subsequent Subscription Amount***

Details of any Minimum Initial Subscription Amount and Minimum Subsequent Subscription Amount applicable to a Class of Unit or a Sub-Fund are set out in the relevant Appendix.

The Manager has the discretion to waive, change or accept an amount lower than the Minimum Initial Subscription Amount or Minimum Subsequent Subscription Amount from time to time, whether generally or in a particular case.

### ***Application Procedures***

Applications for subscription of Units may be made to the Manager by completing the Application Form and sent by post or by facsimile to the Manager at the business address or facsimile number on the Application Form or by any electronic means from time to time determined by the Manager and the Trustee. The Manager and/or the Trustee may request further supporting documents and/or information to be provided together with the Application Form or electronic instructions. The original of any Application Form sent by facsimile must follow promptly if the Manager or the Trustee so requests. The Application Form is available from the Manager and/or the Authorised Distributors.

In respect of Application Forms or electronic instructions (as the case may be) and subscription moneys in cleared funds which are received on or before the IOP Deadline, Units will be issued following the close of the Initial Offer Period. If Application Forms, electronic instructions and/or application monies in cleared funds are received after the IOP Deadline, the relevant applications shall be carried forward to the next Subscription Day and shall be dealt with at the Issue Price at such Subscription Day.

Following the close of the Initial Offer Period, an Application Form or electronic instruction received by the Manager by the Subscription Deadline of a Subscription Day will be dealt with on that Subscription Day. If an application for Units is received after the Subscription Deadline in respect of a Subscription Day then the application will be held over until the next Subscription Day provided that the Manager may in the event of system failure which is beyond the reasonable control of the Manager or events of natural disaster and with the approval of the Trustee after taking into account the interest of other Unitholders of the relevant Sub-Fund, exercise its discretion to accept an application in respect of a Subscription Day which is received after the Subscription Deadline if it is received prior to the Valuation Point relating to that Subscription Day. Notwithstanding the aforesaid, where in the Trustee's reasonable opinion, the Trustee's operational requirements cannot support accepting any such application, the Manager shall not exercise its discretion to accept any application.

### ***Payment procedures***

Payment for Units subscribed for cash during the Initial Offer Period and the Subscription Charge (if any) is due in cleared funds by the IOP Deadline. Following the close of the Initial Offer Period, payment for Units and the Subscription Charge (if any) is due at the expiry of the Payment Period.

If payment in full in cleared funds has not been received by the IOP Deadline or the relevant Payment Period (or such other period as the Manager may determine and disclose to the applicants), the Manager may (without prejudice to any claim in respect of the failure of the applicant to make payment when due) cancel any Units which may have been issued in respect of such application for subscription and the Manager must cancel the issue of the relevant Units if the Trustee so requires.

Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim in respect thereof against the Manager or the Trustee, provided that: (i) no previous valuations of the relevant Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units; (ii) the Manager and the Trustee may charge the applicant a cancellation fee to represent the administrative costs involved in processing the application for such Units from such applicant; and (iii) the Manager and the Trustee may require the applicant to pay (for the account of the relevant Sub-Fund in respect of each Unit so cancelled) the amount (if any), by which the Issue Price of each such Unit exceeds the Redemption Price of such Unit on the day of cancellation (if such day is a Redemption Day for the relevant class of Units) or the immediately following Redemption Day plus interest on such amount until receipt of such payment by the Trustee.

Payments for Units should be made in the Base Currency of the relevant Sub-Fund or where one or more Classes are issued in respect of a Sub-Fund, payment for Units of a Class should be made in the Class Currency of such Class. Subject to the agreement of the Manager, payment in other freely convertible currencies may be accepted. Where amounts are received in a currency other than the relevant Base Currency or Class Currency (as the case may be), they will be converted into the relevant Base Currency or Class Currency (as the case may be) at the cost of the relevant applicant and the proceeds of conversion (after deducting the costs of such conversion) will be applied in the subscription of Units in the relevant Sub-Fund or Class. Any conversion to the relevant Base Currency or Class Currency (as the case may be), will be at the prevailing market rate (whether official or otherwise) which the Manager deems appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange. Conversion of currency may be made at a premium or discount in exceptional circumstances such as where there is a huge fluctuation in the exchange rate. Currency conversion will be subject to availability of the currency concerned. Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, none of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder or any person for any loss suffered by such Unitholder arising from such currency conversion.

All payments should be made by cheque, direct transfer, telegraphic transfer or bank draft (or other manner as may be agreed by the Manager). Cheques and bank drafts should be crossed "a/c payee only, not negotiable" and made payable to the accounts specified in the Application Form, stating the name of the relevant Sub-Fund to be subscribed, and sent with the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued until the cheque is cleared. Any costs of transfer of subscription moneys to a Sub-Fund will be payable by the applicant.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant should provide sufficient evidence as to the source of payment as the Manager and the Trustee may from time to time require.

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

### ***General***

The Manager has an absolute discretion to accept or reject in whole or in part any application for Units.

If an application is rejected (either in whole or in part) or the Manager determines that the relevant Class of Units or the relevant Sub-Fund and the Class or Classes of Units related to it will not be launched, subscription moneys (or the balance thereof) will be returned within the Refund Period without interest and after deducting any of out-of-pocket fees and charges incurred by the Manager and the Trustee by cheque through the post or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicant or in such other manner as the Manager and the Trustee may from time to time determine. Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, none of the Manager, the Trustee or their respective delegates or agents will be liable to the applicant for any loss the applicant suffers as a result of the rejection or delay of any application.

Units issued by the Fund will be held for investors in registered form. Certificates will not be issued. A contract note will be issued upon acceptance of an applicant's application and the receipt of cleared funds and will be forwarded to the applicant (at the risk of the person entitled thereto). In case of any error in a contract note, applicants should contact the relevant intermediaries or the Authorised Distributor promptly for rectification.

Fractions of a Unit (rounded down to four decimal places) may be issued. Any amount corresponding to such rounding will accrue to the relevant Sub-Fund.

### ***Restrictions on Issue***

No Units of a Sub-Fund or a Class will be issued where the determination of the Net Asset Value of that Sub-Fund or Class and/or the allotment or issuance of Units of that Sub-Fund or Class is suspended (for further details see “*Suspension*” below) or when the Manager determines, with prior notification to the Trustee, that subscriptions for such Sub-Fund or Class of Units are closed.

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## REDEMPTION OF UNITS

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### *Redemption of Units*

Subject to the restrictions (if any) as specified in the relevant Appendix, any Unitholder may redeem his Units on any Redemption Day in whole or in part. Save where there is a suspension of the determination of the Net Asset Value of the relevant Sub-Fund or Class and/or the redemption of Units of the relevant Sub-Fund or Class, a redemption request once given cannot be revoked without the consent of the Manager.

### *Redemption Price*

Units redeemed on a Redemption Day will be redeemed at the Redemption Price calculated by reference to the Net Asset Value per Unit of the relevant Class as at the Valuation Point on the Valuation Day in respect of that Redemption Day (for further details, see “*Valuation and Suspension - Calculation of Net Asset Value*” below).

In calculating the Redemption Price, the Manager may impose deductions to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc.

The Redemption Price shall be rounded to six decimal places. Any amount corresponding to such rounding will accrue to the relevant Sub-Fund.

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

### *Redemption Charge*

The Manager may charge a Redemption Charge on the redemption of Units of a percentage of either (i) the Redemption Price per Unit; or (ii) the total redemption amount in relation to a redemption request, as the Manager may at its discretion determine. The maximum and current rate of Redemption Charge (if any) and the manner in which it will be imposed are specified in the relevant Appendix. For the avoidance of doubt, a lower maximum rate of Redemption Charge may be imposed in relation to the redemption of Units of a Sub-Fund as compared to other Sub-Funds and also in relation to different Classes of Units of a Sub-Fund.

The Manager may increase the rate of Redemption Charge payable up to or towards the maximum rate for a Sub-Fund or a Class of Units, on giving at least one month's prior written notice to the Unitholders. The maximum rate of Redemption Charge of a Sub-Fund or a Class of Units may be increased with the sanction of an extraordinary resolution of the Unitholders of the relevant Sub-Fund or Class of Units (as the case may be) and subject to the SFC's prior approval.

For the purpose of calculating the Redemption Charge payable on a partial redemption of a Unitholder's holding, Units subscribed earlier in time are deemed to be redeemed prior to Units subscribed later in time unless the Manager and the Trustee agree otherwise.

The Redemption Charge will be deducted from the amount payable to a Unitholder in respect of the redemption of Units. The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit or, if so stated in the relevant Appendix, retained by the relevant Sub-Fund. Where the Redemption Charge is retained by the Manager, it may at its discretion, pay all or part of the Redemption Charge to its agents or delegates. The Manager shall be entitled to differentiate between Unitholders or Classes of Units as to the amount of the Redemption Charge (within the maximum rate of Redemption Charge).

#### ***Minimum Redemption Amount and Minimum Holding Amount***

Details of any Minimum Redemption Amount and Minimum Holding Amount applicable to a Class of Unit or a Sub-Fund are set out in the relevant Appendix.

If a redemption request will result in a Unitholder holding Units of a Sub-Fund or a Class less than the Minimum Holding Amount for that Sub-Fund or Class, the Manager may deem such request to have been made in respect of all Units of the relevant Sub-Fund or Class held by that Unitholder.

The Manager has the discretion to waive, change or accept an amount lower than the Minimum Redemption Amount or Minimum Holding Amount from time to time, whether generally or in a particular case.

#### ***Redemption Procedures***

Applications for redemption of Units may be made to the Manager by completing the Redemption Form and sent by post or by facsimile to the Manager at the business address or facsimile number on the Redemption Form or by any electronic means from time to time determined by the Manager and the Trustee. The original of Redemption Form sent by facsimile must follow promptly if the Manager or the Trustee so requests. The Redemption Form is available from the Manager and/or the Authorised Distributors.

A Redemption Form or an electronic instruction received by the Manager by the Redemption Deadline of a Redemption Day will be dealt with on that Redemption Day. If an application for redemption of Units is received after the Redemption Deadline in respect of a Redemption Day then the application will be held over until the next Redemption Day provided that the Manager may in the event of system failure which is beyond the reasonable control of the Manager or events of natural disaster and with the approval of the Trustee after taking into account the interest of other Unitholders of the relevant Sub-Fund, exercise its discretion to accept a redemption request in respect of a Redemption Day which is received after the Redemption Deadline if it is received prior to the Valuation Point relating to that Redemption Day. Notwithstanding the aforesaid, where in the Trustee's reasonable opinion, the Trustee's operational requirements cannot support accepting any such redemption request, the Manager shall not exercise its discretion to accept any redemption request.

A request for redemption once given cannot be revoked without the consent of the Manager.

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

Redemption proceeds will normally be paid by direct transfer or telegraphic transfer in the Base Currency of the relevant Sub-Fund or the Class Currency of the relevant Class of Units to the pre-designated bank account of the Unitholder (at his risk and expense). No third party payments will be permitted. Any bank charges associated with the payment of such redemption proceeds will be borne by the redeeming Unitholder.

Redemption proceeds may be paid in a currency other than the relevant Base Currency or Class Currency if so requested by the relevant redeeming Unitholders and agreed by the Manager with the approval of the Trustee.

Where redemption proceeds are paid in a currency other than the relevant Base Currency or Class Currency, they will be converted from the relevant Base Currency or Class Currency at the cost of the relevant redeeming Unitholders. Any conversion from the relevant Base Currency or Class Currency, will be at the prevailing market rate (whether official or otherwise) which the Manager deems appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange. Conversion of currency may be made at a premium or discount in exceptional circumstances such as where there is a huge fluctuation in the exchange rate. Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, none of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder or any person for any loss suffered by such Unitholder arising from such currency conversion.

Redemption Proceeds will be paid as soon as practicable but in any event not exceeding one calendar month after the day on which the Manager receives the duly completed Redemption Form and such other documents and information as the Manager and/or the Trustee may require, unless the market(s)

in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the redemption money within the aforesaid time period not practicable. In such case, payment of redemption proceeds may be deferred, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s).

The Manager or the Trustee, as the case may be, may, in its absolute discretion, delay payment to the Unitholder until (a) if required by the Manager or the Trustee, the original of the Redemption Form duly signed by the Unitholder has been received; (b) where redemption proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee; and (c) the Unitholder has produced all documents or information required by the Manager and/or the Trustee for the purpose of verification of identity.

The Manager or the Trustee, as the case may be, may, refuse to make a redemption payment to a Unitholder if either the Manager or the Trustee suspects or is advised that (i) such payment may result in a breach or violation of any anti-money laundering law or other laws or regulations by any person in any relevant jurisdiction; or (ii) such refusal is necessary or appropriate to ensure compliance by the Fund, the Manager, the Trustee or other service providers with any such laws or regulations in any relevant jurisdiction.

If the Manager or the Trustee is required or entitled by any applicable laws, regulations, direction or guidance, or by any agreement with any tax or fiscal authority to make withholdings from any redemption moneys payable to the Unitholder, the amount of such withholdings shall be deducted from the redemption moneys otherwise payable to such person, provided that the Manager or the Trustee is acting in good faith and on reasonable grounds.

Save for any liability imposed under the laws of Hong Kong or for breach of trust through fraud or negligence of the Trustee or the Manager, neither the Manager nor the Trustee nor their agents shall be liable for any loss caused by any refusal or delay in making payment as a result of delay in receipt of proceeds of realisation of the investments of the relevant Sub-Fund.

The Trust Deed also provides for payment of redemption proceeds in specie with the consent of the relevant Unitholder.

### ***Restrictions on Redemption***

No Units of a Sub-Fund or a Class may be redeemed where the determination of the Net Asset Value of that Sub-Fund or Class and/or the redemption of Units of that Sub-Fund or Class is suspended (for further details see “***Valuation and Suspension - Suspension***” below).



With a view to protecting the interests of all Unitholders of a Sub-Fund, the Manager may with the approval of the Trustee limit the number of Units of such Sub-Fund redeemed on any Redemption Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund who have validly requested to redeem Units of the same Sub-Fund on that Redemption Day will redeem the same proportion of such Units of that Sub-Fund. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, and will have priority on the next succeeding Redemption Day and all following Redemption Days (in relation to which the Manager has the same power) until the original request has been satisfied in full. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned as soon as practicable and in any event within five Business Days of such Redemption Day.

### ***Compulsory Redemption of Units***

If the Manager or the Trustee suspects that Units of any Class are owned directly, indirectly or beneficially by any person:

- (a) in contravention of any laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed; or
- (b) in circumstances (whether directly or indirectly affecting such person and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager or the Trustee to be relevant) which in their opinion might result in the relevant Sub-Fund, the Fund, the Trustee and/or the Manager incurring any liability to taxation or suffering any other pecuniary disadvantage which the Sub-Fund, the Fund, the Trustee and/or the Manager might not otherwise have incurred or suffered,

the Manager or the Trustee may, acting in good faith and in compliance with any applicable laws and regulations:

- (i) give notice requiring the relevant Unitholder to transfer the Units to a person who would not be in contravention of the above restrictions within 30 days of the date of the notice; or
- (ii) deem receipt of a redemption request from the relevant Unitholder in respect of such Units.

Where the Manager or the Trustee has given such notice and the Unitholder has failed to either (i) transfer the relevant Units within 30 days of the date of the notice, or (ii) establish to the satisfaction of the Manager or the Trustee (whose judgment is final and binding) that the relevant Units are not

held in contravention of any of the restrictions set out above, the Unitholder is deemed to have given a redemption request in respect of the relevant Units on the expiry of 30 days from the date of the notice.

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## CONVERSION

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### *Conversion of Units*

Unless otherwise specified in the relevant Appendix, Unitholders shall be entitled (subject to such limitations as the Manager after consulting with the Trustee may impose) to convert all or part of their Units of any Class relating to a Sub-Fund (the “**Existing Class**”) into Units of any other Class in the same Sub-Fund or into Units of another Sub-Fund (the “**New Class**”) available for subscription or conversion. Unless the Manager otherwise agrees, Units of a Class can only be converted into Units of the same Class of another Sub-Fund.

A request for conversion will not be effected if as a result the relevant Unitholder would hold less than the Minimum Holding Amount of the Existing Class, or is prohibited from holding Units of the New Class.

In addition, specific limitations or restrictions may apply when a Unitholder intends to convert his Units into another Class or Sub-Fund. The relevant limitations or restrictions (if any) will be set out in the Appendix for the relevant Sub-Fund.

### *Switching Fee*

A Switching Fee may be charged by the Manager in respect of each Unit of the New Class to be issued upon such conversion of a percentage of either –

- (i) the Issue Price per Unit of the New Class as at the Valuation Point on the Valuation Day at which the Issue Price of such Units is ascertained; or
- (ii) the total monetary amount being switched out of the Existing Class.

The maximum and current rate of Switching Fee (if any) and the manner in which it will be imposed are specified in the relevant Appendix. For the avoidance of doubt, a lower maximum rate of Switching Fee may be imposed in relation to the conversion of Units of a Sub-Fund as compared to other Sub-Funds and also in relation to different Classes of Units of a Sub-Fund.

The Switching Fee shall be deducted from the amount reinvested into the Sub-Fund relating to Units of the New Class and shall be retained by or paid to the Manager for its own absolute use and benefit.

Where the Switching Fee is levied pursuant to paragraph (i) above, Units of the Existing Class will be

converted into Units of the New Class in accordance (or as nearly as may be in accordance) with the following formula:-

$$N = \frac{(E \times R \times F)}{S + SF}$$

Where the Switching Fee is levied pursuant to paragraph (ii) above, Units of the Existing Class will be converted into Units of the New Class in accordance (or as nearly as may be in accordance) with the following formula:-

$$N = \frac{(E \times R \times F - SF)}{S}$$

Where in either case:-

**N** is the number of Units of the New Class to be issued, provided that amounts lower than the smallest fraction of a Unit of the New Class shall be ignored and shall be retained by the Sub-Fund relating to the New Class.

**E** is the number of Units of the Existing Class to be converted.

**F** is the currency conversion factor determined by the Manager for the relevant Subscription Day of the New Class as representing the effective rate of exchange between the Class Currency of Units of the Existing Class and the Class Currency of Units of the New Class.

**R** is the Redemption Price per Unit of the Existing Class applicable on the relevant Redemption Day less any Redemption Charge imposed by the Manager.

**S** is the Issue Price per Unit for the New Class applicable on the Subscription Day for the New Class coincident with or immediately following the relevant Redemption Day for the Existing Class PROVIDED THAT where the issue of Units of the New Class is subject to the satisfaction of any conditions precedent to such issue then S shall be the Issue Price per Unit of the New Class applicable on the first Subscription Day for the New Class falling on or after the satisfaction of such conditions.

**SF** is a Switching Fee (if any).

If there is, at any time during the period from the time as at which the Redemption Price per Unit of

the Existing Class is calculated up to the time at which any necessary transfer of funds from the Sub-Fund to which the Existing Class relates (“**Original Sub-Fund**”) to the Sub-Fund to which the New Class relates takes place, a devaluation or depreciation of any currency in which any investment of the Original Sub-Fund is denominated or normally traded, the Manager may at its discretion reduce the Redemption Price as the Manager consider appropriate to take account of the effect of that devaluation or depreciation and in such event the number of Units of the New Class to be allotted to any relevant Unitholder shall be recalculated in accordance with the relevant formula set out above as if that reduced Redemption Price had been the Redemption Price ruling for redemptions of Units of the Existing Class on the relevant Redemption Day.

### ***Conversion Procedures***

Applications for conversion of Units may be made to the Manager by completing the Conversion Form and sent by post or by facsimile to the Manager at the business address or facsimile number on the Conversion Form or by any electronic means from time to time determined by the Manager and the Trustee. The original of Conversion Form sent by facsimile must follow promptly if the Manager or the Trustee so requests. The Conversion Form is available from the Manager and/or the Authorised Distributors.

Conversion Forms or electronic instructions which is received by the Manager by the Redemption Deadline applicable to the Existing Class or such later time as the Manager may think fit on a Redemption Day (but prior to the Valuation Point relating to the relevant Redemption Day) in relation to such Existing Class will be dealt with on that Redemption Day and Conversion Forms or electronic instructions received after such time will be dealt with on the following Redemption Day in relation to such Existing Class. Conversion Forms or electronic instructions may not be withdrawn without the consent of the Manager.

Depending on the Valuation Point of the relevant Sub-Fund and the time required to remit the conversion money, the day on which investments are converted into the New Class may be later than the day on which investments in the Existing Class are converted out or the day on which the instruction to convert is given.

### ***Restrictions on Conversion***

Units shall not be converted during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended (for further details see “***Valuation and Suspension - Suspension***” below) or when the Manager determines, with prior notification to the Trustee, that subscriptions for Units of the New Class are closed.

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## VALUATION AND SUSPENSION

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### *Calculation of Net Asset Value*

The Net Asset Value of each Sub-Fund and the Net Asset Value per Unit of each Class will be calculated in accordance with the Trust Deed as at the Valuation Point on each Valuation Day. The Trust Deed provides among others that:-

(a) Listed Investments

The value of any investment (other than an interest in a collective investment scheme or a commodity) quoted, listed, traded or normally dealt in on a Securities Market shall at the discretion of the Manager be calculated by reference to the last traded price or closing price as calculated and published by the relevant Securities Market at or immediately preceding the Valuation Point, as the Manager may consider in the circumstances to provide a fair criterion, provided that:-

- (i) If the Manager in its discretion considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may, after consultation with the Trustee, adopt such prices.
- (ii) In the case of any investment which is quoted, listed or normally dealt in on a Securities Market but in respect of which, for any reason, prices on that Securities Market may not be available at any relevant time, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee.
- (iii) There shall be taken into account interest accrued on interest-bearing investments up to (and including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price.

(b) Unquoted Investments

The value of any investment (other than an interest in a collective investment scheme or a commodity) which is not quoted, listed or normally dealt in on a Securities Market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition thereof (including in each case the amount of the stamp duties, commissions and other acquisition expenses) provided that the value of any such unquoted investments shall be

determined 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 etc.

Cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager and subject to the approval of the Trustee, any adjustment should be made to reflect the value thereof.

(d) Collective Investment Scheme

The value of each unit, share or other interest in any collective investment scheme shall be the net asset value per unit or share as at the same day the Net Asset Value of the relevant Sub-Fund is calculated, or if such collective investment scheme is not valued as at the same day the Net Asset Value of the relevant Sub-Fund is calculated, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such unit or share at or immediately preceding the Valuation Point.

If no net asset value, bid and offer prices or price quotations are available, the value of each unit, share or other interest in any collective investment scheme shall be determined from time to time in such manner as the Manager with the approval of the Trustee shall determine.

(e) Other Valuation Methods

Notwithstanding paragraphs (a) to (d) above, the Manager may, with the consent of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations they deem relevant, they consider that such adjustment or use of such other method is required to reflect the fair value thereof.

(f) Conversion to Base Currency

The value (whether of a borrowing or other liability or an investment or cash) otherwise than in the Base Currency of a Sub-Fund shall be converted into the Base Currency at the prevailing market 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. Conversion of currency may be made at a premium or discount in exceptional circumstances such as where there is a huge fluctuation in the

exchange rate.

(g) Reliance on Price Data and Information provided through Electronic Price Feeds etc

Subject as provided below, when calculating the Net Asset Value of a Sub-Fund, price data and other information in relation to the value of any asset of any investment, or the cost price or sale price thereof provided through electronic price feeds, mechanised or electronic systems of price or valuation, or valuation or pricing information which is provided by any valuer, third party valuation agent, intermediary or other third party appointed or authorised to provide valuations or pricing information of the investments or the assets of the Sub-Fund may be relied upon without verification, further enquiry or liability notwithstanding that the prices so used are not the last traded prices or closing prices.

(h) Appointment of a Third Party for Valuation

Where a third party is engaged in the valuation of the assets of a Sub-Fund, the Manager shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such third party in ensuring such entity possesses the appropriate level of knowledge, experience and resources that is commensurate with the valuation policies and procedures for such Sub-Fund. The valuation activities of such third party shall be subject to the ongoing supervision and periodic review by the Manager.

Investors should note that, under HKFRS, investments should be valued at fair value and also that, under HKFRS, bid and offer pricing is considered to be representative of the fair value of investments. However, the valuation basis described above may deviate from the HKFRS which may lead to a different valuation had the valuation been performed in accordance with HKFRS. The Manager has considered the impact of such non-compliance and do not expect this issue to affect the results and Net Asset Value of a Sub-Fund materially. To the extent that the valuation basis adopted by the relevant Sub-Fund deviates from HKFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with HKFRS.

The Manager may, at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request, arrange for a revaluation of the Net Asset Value of a Unit of any Class if it considers that the Net Asset Value per Unit of the relevant Class calculated in relation to any Subscription Day or Redemption Day (as the case may be) does not accurately reflect the true value of such Unit. Any revaluation will be made on a fair and equitable basis.

***Suspension***

The Manager may, after giving notice to the Trustee and with the agreement of the Trustee, having regard to the best interests of Unitholders, declare a suspension of the determination of the Net Asset



Value of any Sub-Fund or of any Class of Units and/or the issuance, conversion and/or the redemption of Units 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 commodities market or Securities Market on which a substantial part of the investments of that Sub-Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments or the Net Asset Value of a Sub-Fund or the Issue Price or Redemption Price per Unit; or
- (b) for any other reason the prices of investments held or contracted for by the Manager for the account of that Sub-Fund cannot, in the opinion of the Manager after consultation with the Trustee, reasonably, promptly or fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager after consultation with the Trustee, it is not reasonably practicable to realise a substantial part of the investments held or contracted for the account of that Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of Units of the relevant Sub-Fund; or
- (d) 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 that Sub-Fund or the issue or redemption of Units of the relevant Class is delayed or cannot, in the opinion of the Manager after consultation with the Trustee, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of any of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of any of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager after consultation with the Trustee reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (f) when, in the opinion of the Manager after consultation with the Trustee, such suspension is required by law or applicable legal process; or
- (g) where that Sub-Fund is invested in one or more collective investment schemes and the realisation of interests in any relevant collective investment scheme(s) (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager or the Trustee or any of their delegates in relation to the operations of that Sub-Fund are substantially interrupted or closed as a result of or arising from a force majeure event; or

- (i) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund or to carry out a scheme of amalgamation involving that Sub-Fund; or
- (j) such other circumstance or situation exists as set out in the Appendix of that Sub-Fund.

If a suspension is declared, during such a period of suspension –

- (a) where the suspension is in respect of the determination of the Net Asset Value, there shall be no determination of the Net Asset Value of the relevant Sub-Fund and the Net Asset Value per Unit of that Sub-Fund (or a Class thereof) (although an estimated Net Asset Value may be calculated and published) and any applicable issue or request for conversion or redemption of Units shall be similarly suspended. If a request for subscription, conversion or redemption of Units are received by the Manager during a period of suspension and not withdrawn, such request shall be treated as if it were received in time to be dealt with on the Subscription Day or the Redemption Day (as the case may be) next following the end of the said suspension and dealt with accordingly;
- (b) where the suspension is in respect of the allotment or issue, conversion and/or the redemption of Units, there shall be no allotment, issue, conversion and/or redemption of Units. For the avoidance of doubt, the allotment, issue, conversion or redemption of Units may be suspended without suspending the determination of the Net Asset Value.

A suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist; and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager declares such a suspension it shall as soon as may be practicable after any such declaration notify the SFC of such suspension and shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, cause a notice to be published at the Manager's website at <http://www.gffunds.com.hk> or cause such notice to be published in any other media and/or cause a notice to be given to Unitholders of the Class relating to the relevant Sub-Fund and to all those (whether Unitholders or not) whose applications to subscribe for or redeem Units shall have been affected by such suspension stating that such declaration has been made. Investors should note that the aforesaid website is not reviewed by the SFC.

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## DISTRIBUTION POLICY

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The distribution policy adopted by a Sub-Fund is set out in the relevant Appendix of such Sub-Fund. A Sub-Fund may offer Classes of Units that accumulate income (“**Accumulation Classes**”) or pay regular distributions out of net distributable income of such Sub-Fund (“**Distribution Classes**”).

### *Accumulation Classes*

No distribution is intended to be made in respect of Accumulation Classes. Therefore, any net income and net realised capital gains attributable to Units of the Accumulation Classes will be reflected in their respective Net Asset Value.

### *Distribution Classes*

For Distribution Classes, the Manager will declare and pay distributions in such amount, on such date and at such frequency as the Manager may determine. However, unless otherwise specified in the relevant Appendix, there is neither a guarantee that such distributions will be made nor will there be a target level of distributions payout.

Distributions will be paid out of the net distributable income of the relevant Distribution Class. The Manager will also have the discretion to determine if and to what extent distributions will be paid out of capital attributable to the relevant Distribution Class.

**In the event that the net distributable income attributable to the relevant Distribution Class during the relevant period is insufficient to pay distributions as declared, the Manager may in its discretion determine such dividends be paid from capital. A Sub-Fund may also charge all or part of its fees and expenses to capital which means that the Sub-Fund may effectively pay distributions out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of a Sub-Fund’s capital may result in an immediate reduction of the Net Asset Value per Unit of the relevant Distribution Class.**

The composition of the distributions (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and also on the Manager’s website at <http://www.gffunds.com.hk>. Investors should note that the aforesaid website has not been reviewed by the SFC.

Distributions of a Distribution Class declared, if any, shall be distributed among the Unitholders of the relevant Distribution Class rateably in accordance with the number of Units held by them on the

record date as determined by the Manager with the approval of the Trustee 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.

Distributions may be paid in cash or may be applied to subscribe for additional Units in the relevant Class of the relevant Sub-Fund at the option of the Unitholder as indicated in its Application Form. Unitholders may change their distribution option by giving not less than 14 days' written notice to the Manager. Any payment of distributions in cash will normally be paid by direct transfer or telegraphic transfer in the Class Currency of the relevant Distribution Class to the pre-designated bank account of the Unitholder (at his risk and expense). No third party payments will be permitted.

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

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## FEES AND EXPENSES

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### *Management Fee*

The Manager is entitled to receive in respect of a Sub-Fund (or any Class thereof), a management fee calculated and accrued as at the Valuation Point on each Valuation Day and payable monthly in arrears as a percentage of the Net Asset Value of such Sub-Fund (or such Class) as at each Valuation Day at the rates as specified in the relevant Appendix subject to a maximum fee as specified in the relevant Appendix.

### *Performance Fee*

The Manager may charge a performance fee in respect of a Sub-Fund (or any Class thereof), payable out of the assets of the relevant Sub-Fund (or the relevant Class). If a performance fee is charged, further details will be provided in the Appendix for the relevant Sub-Fund, including the current rate of the performance fee payable and the basis of calculation of such fee.

The Manager reserves the right to waive or rebate any fees to which it is entitled, whether in part or in full and whether in respect of a particular investor or generally. The Manager may share any fees it receives with any person(s) as it deems appropriate.

### *Trustee Fee*

The Trustee is entitled to receive a fee which is charged as a percentage of the Net Asset Value of the relevant Sub-Fund on each Valuation Day, at the rates specified in the Appendix and subject to a minimum monthly fee (if any) as specified in the relevant Appendix. The Trustee's fee is calculated and accrued as at the Valuation Point on each Valuation Day and payable monthly in arrears out of the assets of the relevant Sub-Fund. The fee payable to the Trustee is subject to a maximum rate as specified in the Appendix.

The Trustee is also entitled to receive a fee for acting as Registrar. It is also entitled to receive various transaction, processing, valuation fees and other applicable fees as agreed with the Manager from time to time and to be reimbursed by the relevant Sub-Fund for all out-of-pocket expenses (including sub-custody fees and expenses) properly incurred by it in the performance of its duties.

### *Custodian Fees*

Pursuant to the fee letter entered into between the Trustee and the Custodian, the Custodian is entitled to (among others) transaction charges at customary market rates and a custody fee ("**Custody Fee**") at

different rates, largely depending on the investment instruments concerned as well as the markets where the Custodian is required to hold the relevant Sub-Fund's assets. The maximum rate of the Custody Fee is set out in the Appendix for the relevant Sub-Fund. Such fee will be calculated monthly and will be paid monthly in arrears, or any other mutually agreed frequency. The Custodian will also be entitled to reimbursement by the relevant Sub-Fund for any out-of-pocket expenses or third-party charges incurred in the course of its duties.

### ***Notice for Fee Increase***

Unitholders shall be given not less than one month's prior notice should there be any increase of the management fee, performance fee or Trustee's fee from the current level to the maximum level. Any increase in the maximum level of the management fee, performance fee or Trustee's fee of a Sub-Fund (or any Class thereof) shall be subject to the SFC's prior approval and the sanction of extraordinary resolution of the Unitholders of such Sub-Fund (or such Class).

### ***Establishment Costs***

The establishment costs of a Sub-Fund are of such amount as set out in the Appendix of the relevant Sub-Fund and will be borne by the relevant Sub-Fund. The establishment costs will be amortised over the Amortisation Period.

Investors should also note that under HKFRS, establishment costs should be expensed as incurred and that amortisation of the expenses of establishing Sub-Funds is not in accordance with HKFRS; 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 accounting basis adopted by a Sub-Fund deviates from HKFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with HKFRS.

### ***General Expenses***

Each Sub-Fund will bear the costs (including those set out below) which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated amongst the Sub-Funds in proportion to the respective Net Asset Value of all the Sub-Funds.

Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Funds, the fees and expenses of the custodian, registrar and the auditors, valuation costs, legal fees, the expenses incurred by the Manager and the Trustee in establishing the Fund and Sub-Funds and costs in connection with the initial issue of Units or a Class of Units, the costs incurred in connection with the preparation of supplemental deeds or any listing or regulatory approval, the costs of holding meetings of Unitholders and of giving notices to Unitholders, the costs incurred in

terminating the Fund or any Sub-Fund, the fees and expenses of the Trustee which are agreed by the Manager in connection with time and resources incurred by the Trustee reviewing and producing documentation in connection with the operation of any Sub-Fund including the filing of annual returns and other statutory information required to be filed with any relevant regulatory authority and the costs incurred in the preparation and printing of any explanatory memorandum, all costs incurred in publishing the Net Asset Value of a Sub-Fund, Net Asset Value per Unit, Issue Price and Redemption Price of Units, all costs of preparing, printing and distributing all statements, accounts and reports, the expenses of preparing and printing any offering document, and any other expenses, deemed by the Manager, after consulting the Auditors, to have been incurred in compliance with or connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with any code relating to unit trusts.

For so long as the Fund and such Sub-Funds are authorised by the SFC, no advertising or promotional expenses shall be charged to the Sub-Funds so authorised.

### ***Transactions with Connected Persons, Cash Rebates and Soft Dollars***

All transaction carried out by or on behalf of the Fund or a Sub-Fund must be executed at arm's length, on the best available terms and in the best interests of the Unitholders of the relevant Sub-Fund. In particular, any transactions between the Sub-Fund and the Manager, the Investment Delegate or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions will be disclosed in the annual report of the Fund and/or the relevant Sub-Fund. In transacting with brokers or dealers connected to the Manager, the Investment Delegate of the relevant Sub-Fund, The Trustee or any of their connected persons, the Manager must ensure that:

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

None of the Manager, the Investment Delegate or any of their connected persons will retain cash or other rebates from brokers or dealers in consideration of directing transactions for a Sub-Fund to such brokers or dealers, save that goods and services (soft dollars) as described in the paragraph below may be retained. Any such cash commission or rebates received from any such brokers or dealers shall be for the account of the relevant Sub-Fund. Details of any such commissions and the Manager's soft

dollar practices, including a description of the goods and services received by the Manager will be disclosed in the annual and semi-annual report and accounts of the Fund and/or the relevant Sub-Fund.

The Manager, the Investment Delegate and/or any of their connected persons reserve the right to effect transactions by or through a broker or dealer with whom the Manager, the Investment Delegate and/or any of their connected persons have an arrangement under which that broker or dealer will from time to time provide to or procure for the Manager, the Investment Delegate and/or any of their connected persons goods or services for which no direct payment is made but instead the Manager, the Investment Delegate and/or any of their connected persons undertake to place business with that broker or dealer. The Manager and the Investment Delegate (if any) shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the Unitholders (taken as a body and in their capacity as such) whether by assisting the Manager and/or the Investment Delegate in their ability to manage the relevant Sub-Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Fund or the relevant Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the Investment Delegate, including a description of goods and services received by them; and (iv) the availability of soft dollar arrangement is not the sole or primary purpose to perform or arrange transactions with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.



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## TAXATION

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Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and redemption of Units by him under the laws of the places of his citizenship, residence and domicile.

The following summary of Hong Kong taxation is of a general nature, is 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 Unitholders. Prospective Unitholders should consult their own professional advisers as to the 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 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.

### *Hong Kong Taxation*

#### The Fund/ Sub-Fund(s)

##### **Profits Tax**

As the Fund and the Sub-Fund(s) have been authorised as a collective investment scheme constituted as a unit trust by the SFC under Section 104 of the SFO, profits of the Fund and the Sub-Fund(s) are exempt from Hong Kong Profits Tax under Section 26A(1A)(a)(i) of the Inland Revenue Ordinance.

##### **Stamp Duty**

Hong Kong Stamp Duty is generally payable on the sale or purchase of “Hong Kong stock” at 0.1 per cent on the higher of the consideration or the value of the Hong Kong stock sold or purchased.

#### The Unitholders

##### **Profits Tax**

Unitholders should generally not be subject to tax in Hong Kong (whether by way of withholding or otherwise) on distributions by the Fund or Sub-Fund(s) in accordance with the prevailing practice of the Inland Revenue Department of Hong Kong (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 (with, subject to certain conditions being met, the first HK\$2 million of assessable profits charged at 8.25% for corporations or 7.5% for unincorporated businesses) will arise on any gains or profits made on the sale, redemption or other transfer of the Units where the profits, not being regarded as capital in nature, arise from a trade, profession or business of investment in securities carried on by a Unitholder (e.g. dealers in securities, financial institutions and insurance companies) in Hong Kong and are sourced in Hong Kong. Unitholders should take advice from their own professional advisers as to their particular tax position.

### **Stamp Duty**

No Hong Kong stamp duty should be payable on the issue of Units or on the redemption of Units.

No Hong Kong stamp duty should be payable where the sale or transfer of the Units is effected by selling or transferring the Units back to the Manager who then either extinguishes the Units or re-sells the Units to another person within two months thereof.

Other types of transfers or sales or purchases of the Units by the Unitholders should be liable to Hong Kong Stamp Duty at 0.1% (normally borne by each of the buyer and seller) on the higher of the consideration amount or market value of the Units. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of the Units.

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

### ***Foreign Account Tax Compliance***

Subject to the discussion regarding the intergovernmental agreement (“**IGA**”) below, sections 1471 – 1474 (referred to as “**FATCA**”) of the US Internal Revenue Code of 1986, as amended (“**IRS Code**”) impose rules with respect to certain payments to United States and certain non-United States persons, such as the Fund and/or the Sub-Funds, including interest and dividends from securities of U.S. issuers. All such payments (referred to as “**Withholdable Payments**”) may be subject to FATCA withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the U.S. IRS to identify certain direct and indirect United States persons (within the meaning of the IRS Code) with interests in such payments. To avoid such withholding on

Withholdable Payments made to it, a foreign financial institution (an “**FFI**”), such as the Fund and/or the Sub-Funds (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 US IRS under which it will agree to, among other things, identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the U.S. IRS. The FFI Agreement will also generally require that an FFI withhold tax at a rate of 30% on certain payments made to nonparticipating FFIs.

In general, an FFI which does not sign an FFI Agreement and is not otherwise exempt will face a 30% withholding tax on all “Withholdable Payments”, including U.S. sourced dividends, interest and certain other payments.

The Hong Kong government has entered into an IGA with the US for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under these “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Fund and/or the Sub-Funds) would be required to register with the U.S. IRS and comply with the terms of FFI Agreement. Otherwise they may be subject to a 30% FATCA withholding tax on Withholdable Payments they receive.

Under the IGA, FFIs in Hong Kong (such as the Fund and/or the Sub-Funds) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax on the Withholdable Payments they receive; and (ii) will not be required to withhold tax on Withholdable Payments made to non-consenting accounts (provided that information regarding such non-consenting accounts is reported to the US IRS pursuant to the provisions of the IGA), but may be required to withhold tax on Withholdable Payments made to nonparticipating FFIs.

The Fund and/ or each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any FATCA withholding tax. In particular, the Fund and/or each Sub-Fund has been registered as a participating FFI (including a reporting Model 2 FFI). In the event that the Fund and/ or any Sub-Fund is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and the Fund and/ or such Sub-Fund(s) does suffer FATCA withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Fund and/ or such Sub-Fund(s) may be adversely affected and the Fund and/ or such Sub-Fund(s) may suffer significant loss as a result. In addition, prospective investors should note that underlying collective investment schemes in which the Fund and/ or 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 the Fund and/ or each Sub-Fund.

Each prospective investor should consult with its own tax advisor as to the potential impact of FATCA in its own tax situation.-

As of the date hereof, the Fund and/or each Sub-Fund has already registered with the U.S. IRS as a participating FFI.

### *Automatic Exchange of Financial Account Information*

The Inland Revenue (Amendment) (No.3) Ordinance 2016 (the “**Ordinance**”) 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 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. However, the Fund, each Sub-Fund and/or its agents may further collect information relating to residents of jurisdictions other than the Reportable Jurisdictions.

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

The Ordinance requires the Fund and/or the Sub-Funds to, amongst other things: (i) register the Fund’s status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e., Unitholders) to identify whether any such accounts are considered "Reportable Accounts" under the Ordinance; and (iii) report to IRD the required information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the 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 of certain 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), taxpayer 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 the competent authorities in the relevant Reportable Jurisdictions with which Hong Kong has a CAA in force.

By investing in the Fund and the Sub-Funds and/or continuing to invest in the Fund and the Sub-Funds, Unitholders acknowledge that they are required to enable the Fund and the Sub-Funds to comply with the Ordinance by providing the required information to the Fund, the Sub-Funds and/or the agents of the Fund and/or the Sub-Funds in order to open an account. Moreover, Unitholders acknowledge that they may be required to provide additional information to the Fund, the Sub-Funds and/or agents of the Fund and the Sub-Funds in order for the Fund and the Sub-Funds to comply with the Ordinance. The Unitholder’s information (and information on Controlling Persons of certain 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 advisor(s) on the administrative and substantive implications of the Ordinance on its current or proposed investment in

the Fund and the Sub-Funds.

### **Mainland China Taxation**

*The following summary of Mainland China taxation on a Sub-Fund's key investments 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 implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Mainland China and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Mainland China 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.*

#### **Taxation of a Sub-Fund:**

A Sub-Fund may invest in Mainland China securities via QFI, Stock Connect and Bond Connect (collectively, “**Mainland China Securities**”). By investing in Mainland China Securities, the relevant Sub-Fund may be subject to withholding income tax and other taxes imposed in Mainland China.

##### **A. Corporate Income Tax (“CIT”)**

If the Fund and / or a Sub-Fund is considered as a tax resident enterprise of the PRC, it should be subject to CIT at 25% on its worldwide taxable income. If the Fund and / or a Sub-Fund is considered as a non-PRC tax resident enterprise with an establishment or place of business (“PE”) in the PRC, the profits and gains attributable to that PE should also be subject to CIT at 25%.

If the Fund or a Sub-Fund is a non-PRC tax resident enterprise without a PE in the PRC or has a PE in the PRC but the income derived is not effectively connected with such PE, it will be subject to PRC Withholding Income Tax (“WIT”), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income, unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties.

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

#### **1. Investment in China A-Shares via QFI and Stock Connect; and direct investment in ADRs of non-PRC entities with underlying China operating companies**

##### **1.1. Capital gains**

Pursuant to Caishui [2014] No.81 (“Circular 81”) and Caishui [2016] No. 127 (“Circular 127”), WIT will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-Shares through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect respectively.

In addition, Caishui [2014] No.79 promulgated by the Ministry of Finance (“MOF”), the State Taxation Administration (“STA”) and the CSRC on 14 November 2014 (“Circular 79”) states that QFIs (without 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 exempted from WIT on gains derived from the transfer of PRC equity investments (including A-Shares) effective from 17 November 2014. However, WIT will be imposed on capital gains realised by QFIs from the transfer of PRC equity investment assets (including A-Shares) realised prior to 17 November 2014 in accordance with laws.

## 1.2. Dividend income

Unless a specific exemption or reduction is available under current Corporate Income Tax Law (“CIT Law”) and regulations or relevant tax treaties, non-PRC tax resident enterprises without PE in the PRC are subject to WIT, generally at a rate of 10% on dividend income arising from investments in the PRC companies. The entity distributing such dividends is required to withhold such tax. The Sub-Fund is subject to WIT at 10% on dividends received from China A-Shares traded via QFI and Stock Connect.

## **2. Investment in debt securities issued by PRC tax resident enterprise inside China via QFI, Bond Connect and direct access into CIBM or outside China**

### 2.1. Capital gains

There are no specific rules governing the PRC income taxes on capital gains derived by foreign investors from the trading of debt securities issued by PRC tax resident inside China via QFI, Bond Connect and direct access into CIBM or outside China. In the absence of specific taxation rule, the income tax treatment for investment in debt instruments issued by PRC tax resident enterprises is governed by the general taxing provisions of the CIT Law. For an enterprise that is not a PRC tax resident enterprise and has no PE in the PRC for CIT purpose, 10% PRC WIT would potentially apply to on the PRC-sourced capital gains derived from disposal of these securities, unless exempt or reduced under relevant double tax treaties.

However, pursuant to Article 7 of the Detailed Implementation Regulations of PRC CIT Law, where the property concerned is a movable property, the source shall be determined according to the location of the enterprise, establishment or place which transfers the property. Based on the current interpretation of the STA and certain local PRC tax authorities, on the basis that debt instruments issued by PRC tax resident enterprises are treated as movable property, there should be basis to support that gains derived by the Sub-Fund from the debt instruments issued by PRC tax resident enterprises could be argued as offshore sourced and thus not subject to PRC WIT, unless the MOF and / or the STA would issue special tax rules in the future to state otherwise.

### 2.2. Interest income

Unless a specific exemption or reduction is applicable under current CIT regulations or relevant tax treaties, for recipients that are non-PRC tax resident enterprises and without PE in the PRC under the CIT Law (such as the Sub-Fund), WIT at 10% is levied on the payment of interest received by the Sub-Fund from debt instruments issued by PRC tax resident enterprises. The entity distributing such interests is required to withhold such tax, if applicable.

Interest derived from government bonds issued by the MOF or bonds issued by local government of a province, autonomous regions, municipalities directly under the PRC government or

municipalities separately listed on the state plan, as approved by the State Council of the PRC are exempt from PRC WIT under the PRC CIT Law.

On 7 November 2018, the MOF and the STA issued Caishui [2018] No. 108 (“Circular 108”), which stipulated that foreign institutional investors (without 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) are temporarily exempted from PRC WIT in respect of bond coupon interest income received from 7 November 2018 to 6 November 2021 from investments in the China bond market. On 22 November 2021, the MOF and the STA have further issued Announcement [2021] No. 34 (“Circular 34”) to extend the WIT exemption period provided in Circular 108 to the period from 7 November 2021 to 31 December 2025. As such interest income received by the Sub-Fund from investments in bonds in China bond market via QFI, Bond Connect and direct access into CIBM from 7 November 2018 to 31 December 2025 are exempted from PRC WIT.

Technically, the exemption granted under Circular 108 and Circular 34 is only applicable to domestic China bond market, and thus the interest income derived by the Sub-Fund from the bonds issued by the PRC tax resident enterprises outside China should be subject to WIT; and the PRC bond issuers are the withholding agent of the above WIT.

## **B. Value added Tax (“VAT”)**

On 23 March 2016, the MOF and the STA jointly released Caishui [2016] No.36 (“Circular 36”) on the VAT reform. VAT reform was officially implemented on 1 May 2016. Pursuant to Circular 36, interest income and gains derived from the trading of financial products in China would be subject to 6% VAT, unless there is specific exemption.

### **1. Investment in China A-Shares via QFI and Stock Connect**

#### 1.1. Capital gains

Under Circular 36 and Caishui [2016] No.70 (“Circular 70”), capital gains realised by QFIs from trading of PRC securities (including China A-Shares) are exempted from PRC VAT.

According to Circular 36 and Circular 127, capital gains realised by non-PRC enterprises (including the Sub-Fund) from the trading of A-Shares via Stock Connects are temporarily exempted from VAT.

#### 1.2. Dividend income

Dividend income or profit distributions on equity investment derived from the PRC companies are not included in the taxable scope of VAT and thus not subject to VAT.

### **2. Investment in debt securities issued by PRC tax resident enterprise inside China via QFI, Bond Connect and CIBM or outside China**

#### 2.1. Capital gains

Under the Circular 36 and Circular 70, gains realised by QFIs from trading of PRC marketable securities (including bonds issued by PRC tax resident enterprise) are exempted from VAT. Gains realised by approved foreign investors from trading of RMB denominated debt securities in the China bond market (including investment in the CIBM via Bond Connect) are also exempted from VAT.

On the other side, VAT in general is not imposed on capital gains derived by non-PRC entities (including the Sub-Fund) from disposal of debt securities issued by PRC entities in overseas

market as the purchase and disposal are often concluded and completed totally outside the PRC.

## 2.2. Interest income

Pursuant to Circular 36, interest income derived from bonds issued by PRC tax resident enterprises should be subject to 6% VAT, unless specifically exempted. Interest derived from PRC government bonds issued by the MOF, or bonds issued by local government of a province, autonomous regions, and municipalities directly under the Central Government or municipalities separately listed on the state plan, as approved by the State Council is exempted from VAT.

Circular 108 stipulated that foreign institutional investors are temporarily exempted from PRC VAT in respect of bond coupon interest income received from 7 November 2018 to 6 November 2021 from investments in the China bond market. Circular 34 further extends the VAT exemption period provided in Circular 108 to 31 December 2025. As such, interest income received by the Sub-Fund from investments in bonds in China bond market via QFI, Bond Connect and CIBM from 7 November 2018 to 31 December 2025 are exempted from PRC VAT.

Technically, the exemption granted under Circular 108 and Circular 34 is only applicable to domestic China bond market and thus the interest income derived by the Sub-Fund from the bonds issued by the PRC entities outside China should be subject to VAT; and the PRC bond issuers are the withholding agents of the above VAT.

Where there is VAT payable, there will be City Construction Tax (“CCT”), Education Surcharges (“ES”) and Local Education Surcharges (“LES”) (collectively referred to as Local Surcharges) imposed and would amount to 12% of VAT payable.

Pursuant to the CCT Law and Public Announcement [2021] No.28 (“Circular 28”) issued by the MOF and the STA which took effect on 1 September 2021, Local Surcharges are no longer imposed on the amount of VAT paid for the services (including financial services) provided by overseas entities.

## C. Stamp Duty (“SD”)

SD generally applies to the execution and receipt of dutiable documents listed in the prevailing SD Provisional Rules.

Currently, SD on A-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. SD is not imposed on the purchase or sale of bonds traded in the PRC.

### 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 a possibility that the current tax laws, regulations and practice in Mainland China may be changed with retrospective effect in the future and any such change may have an adverse effect on the Net Asset Value of a Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future.

### Mainland China Tax Provisions

The Manager has its own discretion on whether to make tax provision on the investment income derived from the Sub-Fund in accordance with tax regulations, local tax practice, and professional and independent advice.

The Manager reserves the right to change the Mainland China tax provision policy in response to changes in Mainland China tax law and practices and expiration of temporary tax exemption. The Manager will review the tax provisions policy of a Sub-Fund, and it may in future change the tax



provisions policy, including making provisions to reflect taxes payable when considered appropriate. Investors should note this may have a substantial negative impact on the Net Asset Value of the relevant Sub-Fund.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If no provision is made by the Manager in relation to all or part of the actual tax levied in future, investors should note that the Net Asset Value of a Sub-Fund may be lowered, as the relevant Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the 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 those borne at the time of investment in the relevant Sub-Fund. On the other hand, in case tax provisions are made, and the actual tax liabilities are lower than such tax provisions, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision.

For details relating to Mainland China taxes and associated risks, please refer to the paragraphs under the heading “*Mainland China Tax Risk*” in the “**Risk Factors**” section above.

#### ***Other Jurisdiction(s)***

Please refer to the relevant Appendix on taxation requirements in other jurisdiction(s) that may be applicable to a Sub-Fund.

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## GENERAL INFORMATION

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### *Reports and Accounts*

The Fund's and each Sub-Fund's financial year end is on the Accounting Date in each year.

As an alternative to the distribution of printed audited accounts and unaudited semi-annual reports, the Manager will notify Unitholders where the annual report and audited accounts (in English only) can be obtained (in printed and electronic forms) within four months after the Accounting Date, and where the unaudited semi-annual accounts (in English only) can be obtained (in printed and electronic forms) within two months after the Semi-Annual Accounting Date in each year. Once issued, hardcopies of the reports and accounts are available upon request of Unitholders free of charge at any time during normal business hours on any Business Day at the office of the Manager. Copies of the accounts and reports may be posted to investors on request.

The Manager intends to adopt HKFRS in drawing up the annual accounts of the Fund and Sub-Funds. It should however be noted that in amortising the establishment costs of the Fund in accordance with the section headed "**Establishment Costs**", possible deviation from such accounting standards may occur but the Manager does not expect this issue to be material under normal circumstances. The Manager may make necessary adjustments in the annual accounts in order to comply with HKFRS and to include a reconciliation note in the Fund's audited accounts.

### *Publication of Prices*

The Issue Price and Redemption Price for each Class of a Sub-Fund will be published on each Business Day of that Sub-Fund on the Manager's website at <http://www.gffunds.com.hk>. Investors should note that the aforesaid website is not reviewed by the SFC.

### *Termination of Fund or a Sub-Fund*

The Fund shall continue for an unlimited period unless it is earlier terminated in one of the ways provided under the Trust Deed and as summarised below.

#### *Termination by the Trustee*

The Fund may be terminated by the Trustee by notice in writing to the Manager and the Unitholders if:-

- (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation), become bankrupt or if a receiver is appointed over any of their assets and not discharged within 60 days;
- (b) in the opinion of the Trustee the Manager shall be incapable of performing or shall in fact fail to perform their duties under the Trust Deed satisfactorily or shall do any other thing which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Unitholders;
- (c) any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund;
- (d) the Manager shall, have ceased to be the manager and, within a period of 30 days thereafter, no other qualified corporation shall have been appointed by the Trustee as successor manager; or
- (e) the Trustee shall desire to retire as trustee and no new trustee is appointed within six months of the Trustee giving notice of such desire.

*Termination by the Manager*

The Fund, any Sub-Fund and/or any Class of Units (as the case may be) may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee and the Unitholders if:-

- (a) on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding hereunder shall be less than RMB100,000,000 or its equivalent or, in relation to any Sub-Fund, the aggregate Net Asset Value of the Units outstanding hereunder in respect of such Sub-Fund shall be less than RMB5,000,000 or its equivalent or such other amount stated in the relevant Appendix;
- (b) in the opinion of the Manager, it is impracticable or inadvisable to continue a Sub-Fund and/or any Class of Units of the Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund);
- (c) if any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund and/or any Sub-Fund; or

- (d) the occurrence of any other event(s) or in such other circumstance(s) as set out in the relevant Appendix of the Sub-Fund.

In cases of termination on notice, no less than three months' notice will be given to Unitholders.

Further, a Sub-Fund or a Class of Units may be terminated by an extraordinary resolution of the Unitholders of the Sub-Fund or the Unitholders of the relevant Class (as the case may be) on such date as the extraordinary resolution may provide. At least twenty one days' notice shall be given to the Unitholders in respect of a meeting of Unitholders where such extraordinary resolution will be tabled.

Any unclaimed proceeds or other cash held by the Trustee upon termination of the Fund, a Sub-Fund or a Class of Units, as the case may be, may at the expiration of twelve months from the date upon which the same were payable be paid into a court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

### ***Trust Deed***

The Fund was established under the laws of Hong Kong by 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 Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. Any indemnity expressly given to the Trustee or to the Manager in the Trust Deed is in addition to and without prejudice to any indemnity allowed by law. However, the Trustee and the Manager shall not be exempted 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 for further details.

### ***Voting Rights***

Meetings of Unitholders may be convened by the Manager or the Trustee, and the Unitholders of 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 at which an extraordinary resolution is to be proposed and not less than 14 days' notice of any meeting at which an ordinary resolution is to be proposed.

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 shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If within half an hour from the time appointed for the

meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a poll every Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted to the exclusion of the other joint Unitholders and seniority is determined by the order in which the names appear on the register of Unitholders.

### ***Transfer of Units***

Subject as provided below, 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.

The duly stamped instrument of transfer, any necessary declarations, other documents that may be required by the Manager, the Trustee or the Registrar or in consequence of any legislation (including any anti-money laundering legislation) shall be left with the Registrar for registration. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

Each instrument of transfer must relate to a single class of Units only. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the Minimum Holding Amount (if any) of the relevant Class as specified in the relevant Appendix.

The Manager or the Trustee may refuse to enter or cause to be entered the name of a transferee in the register or recognise a transfer of any Units if either of them 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, including without limitation any anti-money laundering or anti-terrorist financial laws or regulations.

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

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering, the Manager or the Trustee may require a detailed verification of an investor's identity and the source of payment of application moneys. Depending on the circumstances of each application, a detailed verification might not be required where:-

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

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations. The Manager and the Trustee nevertheless reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment.

In the event of delay or failure by the applicant to produce any documents or information required for verification of identity or legitimacy of the subscription monies, the Manager or the Trustee may refuse to accept the application and the subscription moneys relating thereto. Further, they may delay in paying any redemption proceeds if an applicant for Units delays in producing or fails to produce any documents or information required for the purposes of verification of identity. The Manager or the Trustee may refuse to make payment to the Unitholder if either of them suspects or is advised that (i) such payment may result in a breach or violation of any anti-money laundering law or other laws or regulations by any person in any relevant jurisdiction; or (ii) such refusal is necessary or appropriate to ensure compliance by the Fund, the Manager, the Trustee or other service providers with any such laws or regulations in any relevant jurisdiction.

### ***Conflicts of Interest***

The Manager, the Investment Delegate (if any), the Trustee and the Custodian (if any) and their respective connected persons may from time to time act as trustee, administrator, transfer agent, manager, custodian 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 of them may, in the course of business, have potential conflicts of interest with the Fund and the Sub-Funds. Each will, at all times, have regard in such event to its obligations to the Fund and the Sub-Funds and will endeavour to ensure that such conflicts are resolved fairly and taking into account investors' interests. Compliance procedures and measures such as segregation of duties and responsibilities together with different reporting lines and "Chinese walls" have been put in place to minimise potential conflicts of interest. In any event, the Manager shall ensure that all investment opportunities will be fairly allocated.

The Manager may also act as the investment manager of other funds whose investment objectives, investment approach and investment restrictions are similar to those of a Sub-Fund. The Manager or any of its connected persons may invest in, directly or indirectly, or manage or advise other investment funds or accounts which invest in assets which may also be purchased or sold by a Sub-Fund. Neither the Manager nor its connected persons is under any obligation to offer investment opportunities of which any of them become aware to any Sub-Fund or to account to any Sub-Fund in respect of (or share with any Sub-Fund or to inform any Sub-Fund of) any such transactions or any benefit received by any of them from any such transaction, but will allocate such opportunities on an equitable basis between the Fund and other clients. Where the Manager invests a Sub-Fund in shares or units of a collective investment scheme managed by the Manager or any of its connected persons, the manager of the scheme in which the investment is being made by such Sub-Fund must waive any preliminary or initial charge and redemption charge which it is entitled to charge for its own account in relation to and there must be no

increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any connected person of the Manager) borne by the relevant Sub-Fund.

The Manager reserves the right for itself and its connected persons to co-invest on its own or for other funds and/or other clients with any Sub-Fund, although any such co-investment must be made on terms no better than those in which the relevant Sub-Fund is investing. Further, the Manager and any of its connected persons may hold and deal in Units of any Sub-Fund or in investments held by any Sub-Fund either for their own account or for the account of their clients.

Subject to the restrictions and requirements applicable from time to time, the Manager, any Investment Delegates as may be appointed by the Manager or any of their respective connected persons may deal with any Sub-Fund as principal provided that dealings are carried out in good faith and effected on best available terms negotiated on an arm's length basis and in the best interests of the Unitholders of the relevant Sub-Fund. Any transactions between a Sub-Fund and the Manager, the Investment Delegates as may be appointed by the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Sub-Fund's annual report.

In effecting the following transactions, the Manager shall ensure that the relevant requirements under the heading entitled "*Transactions with Connected Persons, Cash Rebates and Soft Dollars*" in the "*Fees and Expenses*" are complied with:

- (a) transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the Investment Delegate of such Sub-Fund or their connected persons; and
- (b) transactions by or through a broker or dealer with whom the Manager, the Investment Delegate and/or any of their connected persons has an arrangement under which that broker or dealer will from time to time provide to or procure for the Manager, the Investment Delegate and/or any of their connected persons goods or services for which no direct payment is made.

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

If cash forming part of a Sub-Fund's assets is deposited with the Trustee, the Manager, the Investment Delegate of such Sub-Fund or any of their connected persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the relevant Sub-Fund, having regards to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business.

### ***Facsimile or Electronic Instructions***

If investors choose to send the instructions for an application or a request for subscription, redemption or conversion by facsimile or such other electronic means, investors may be required first to provide to the Manager and the Registrar an original indemnity relating to fax or transmission via such other electronic means in the application or request.

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

Investors should be reminded that if they choose to send an application or a request for subscription, redemption or conversion by facsimile or any other electronic means, they bear their own risk of such applications or requests for subscription, redemption or conversion not being received. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee, the Registrar and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any such applications or requests sent by facsimile or any other electronic means or any amendment of such applications or requests, or for any loss caused in respect of any action taken as a consequence of such faxed or any other electronic instructions 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. Investors should therefore for their own benefit confirm with the Manager or the Registrar safe receipt of an application or a request.

### ***Forfeiture of Unclaimed Proceeds or Distributions***

If any redemption proceed or distribution remains unclaimed six years after the relevant Redemption Day or distribution date, as the case may be, (a) the Unitholder and any person claiming through, under or in trust for the Unitholder forfeits any right to the proceed or distribution; and (b) the amount of the proceed or distribution will become part of the relevant Sub-Fund unless such Sub-Fund shall have been terminated in which case such amount shall be paid into a court of competent jurisdiction



subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment.

### ***Market Timing***

The Manager does not authorise practices connected to market timing and it reserves the right to reject any applications for subscriptions or switching of Units from a Unitholder which it suspects to use such practices and take, as the case may be, the necessary measures to protect the Unitholders of the Sub-Funds.

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

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

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a 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 Fund or the relevant Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including under FATCA and AEOI), including reporting obligations that may be imposed by future legislation.

For the purposes herein, “**FATCA**” means:

- (a) Section 1471-1471 of the U.S. Internal Revenue Code of 1986; and
- (b) any intergovernmental agreement and supplementary agreements between the Hong Kong government (or any government body in Hong Kong) and the U.S. government (or any government body of the U.S.).

For the purposes herein, “**AEOI**” means:

- (a) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard and any associated guidance; and

- (b) any legislation, regulations or guidance in Hong Kong.

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

Subject to applicable laws and regulations in Hong Kong, the Fund, the relevant Sub-Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the U.S. IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, taxpayer identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, to enable the Fund or the relevant Sub-Fund to comply with any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA and AEOI).

#### ***Personal Data***

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Chapter 468 of the Laws of Hong Kong, “**PDPO**”), the Trustee, the Manager, or any of their respective delegates (each a “**Data User**”) may collect, hold, use personal data of individual investors in the Fund and the Sub-Funds 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 unauthorized or accidental access, processing, erasure or other use.

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

Copies of the following documents are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:-

- (a) the Trust Deed, and any supplemental deeds;
- (b) all material contracts (as specified in the relevant Appendix); and
- (c) the latest annual reports and audited accounts and unaudited semi-annual accounts (if any) of the Fund and the Sub-Funds.

## SCHEDULE 1 – INVESTMENT RESTRICTIONS

### 1. Investment limitations applicable to each Sub-Fund

No holding of any security may be acquired for or added to a Sub-Fund which would be inconsistent with achieving the investment objective of the Sub-Fund or which would result in:-

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other public securities) through the following exceeding 10% of the latest available Net Asset Value of the relevant Sub-Fund:
  - (i) investments in securities issued by that entity;
  - (ii) exposure to that entity through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments.

For the avoidance of doubt, restrictions and limitations on counterparty as set out in sub-paragraphs 1(a), 1(b) and 4.4(c) of this Schedule 1 will not apply to financial derivative instruments that are:

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

The requirements under this sub-paragraph 1(a) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1.

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund:

- (i) investments in securities issued by those entities;
- (ii) exposure to those entities through underlying assets of financial derivative instruments; and
- (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, “entities within the same group” means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.

The requirements under this sub-paragraph 1(b) will also apply in the case of sub-paragraphs 6(e) and (j) of this Schedule 1.

- (c) the value of the Sub-Fund’s cash deposits made with the same entity or entities within the same group exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund provided that the 20% limit may be exceeded in the following circumstances:
  - (i) cash held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (ii) cash 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 would not be in the best interests of investors; or
  - (iii) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions be unduly burdensome and the cash deposits arrangement would not compromise investors’ interests.

For the purposes of this sub-paragraph 1(c), “cash deposits” generally refer to those that are repayable on demand or have the right to be withdrawn by the Sub-Fund and not referable to provision of property or services.

- (d) the Sub-Fund's holding of any ordinary shares (when aggregated with all other Sub-Funds' holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Sub-Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Securities Market, exceeding 15% of the latest available Net Asset Value of such Sub-Fund.
- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of such Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.
- (g) (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to time) and not authorized by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and
  - (ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of that Sub-Fund,

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, a Sub-Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;

- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its Connected Persons; and
- (E) 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 an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under subparagraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by a Sub-Fund;
- (bb) unless otherwise disclosed in the Appendix of a Sub-Fund, the investment by a Sub-Fund in a Qualified Exchange Traded Fund will be considered and treated as listed securities for the purposes of and subject to the requirements in subparagraphs 1(a), (b) and (d) of this Schedule 1. Notwithstanding the aforesaid, the investments by a Sub-Fund in Qualified Exchange Traded Funds shall be subject to subparagraph 1(e) of this Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by a Sub-Fund shall be consistently applied;
- (cc) where investments are made in listed REITs, the requirements under subparagraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under subparagraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where a Sub-Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in subparagraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

## **2. Investment prohibitions applicable to each Sub-Fund**

The Manager shall not, unless otherwise specifically provided for in the Code, on behalf of any Sub-Fund:-

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in

financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### 3. **Feeder Funds**

A Sub-Fund which is a feeder fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme (“**underlying scheme**”) in accordance with the following provisions –

- (a) such underlying scheme (“**master fund**”) must be authorized by the SFC;
- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager;
- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A), (B) and (C) to sub-paragraph 1(g) of this Schedule 1.

### 4. **Use of Financial derivative instruments**

4.1 A Sub-Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all 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 or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and



- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

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

- 4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% of its latest available Net Asset Value. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.
- 4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, a Sub-Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, 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 sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), proviso (A) to (C) to sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.
- 4.4 The financial derivative instruments invested by a Sub-Fund shall be either listed/quoted on a stock exchange or dealt in over-the-counter market and comply with the following provisions:
  - (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies;
  - (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;

- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the valuation agent, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the valuation agent should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

4.5 A Sub-Fund should at all times be capable of meeting all its payment and delivery obligations incurred under transactions in financial derivative instruments (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments in respect of a Sub-Fund are adequately covered on an ongoing basis. For the purposes of this sub-paragraph 4.5, assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in financial derivative instruments shall be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security, and cannot be applied for any other purposes.

4.6 Subject to sub-paragraph 4.5 of this Schedule 1, a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of a Sub-Fund shall be covered as follows:

- (a) in the case of financial derivative instruments transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund shall 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 provided further that the Sub-Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

- 4.7 The requirements under sub-paragraphs 4.1 to 4.6 of this Schedule 1 shall apply to embedded financial derivative. For the purposes of this Explanatory Memorandum, an “**embedded financial derivative**” is a financial derivative instrument that is embedded in another security.

## **5. Securities financing transactions**

- 5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

- 5.2 A Sub-Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

- 5.3 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 financing transactions (including direct or indirect expenses of the Manager and connected persons of the Manager or the Trustee), shall be returned to the Sub-Fund.

- 5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## **6. Collateral**

In order to limit the exposure to each counterparty as set out in sub-paragraphs 4.4(c) and 5.2 of this Schedule 1, a Sub-Fund may receive collateral from such counterparty, provided that the collateral complies with the requirements set out below:

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event 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, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund’s exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in subparagraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of subparagraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate (including any custodian);
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;

- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
- (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 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. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
  - (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

Further details relating to the collateral policy of the Fund and/or Sub-Funds are disclosed in Schedule 3.

## 7. Money Market Funds

In the exercise of its investment powers in relation to a Sub-Fund which is a money market fund (“**Money Market Fund**”) authorised by the SFC under 8.2 of the Code, the Manager shall ensure that the core requirements as set out in paragraphs 1, 2, 4, 5, 6, 9, 10.1 and 10.2 of this Schedule 1 shall apply with the following modifications, exemptions or additional requirements:-

- (a) subject to the provisions set out below, a Money Market Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers’ acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC 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;
  
- (b) a Money Market Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein;
  - (i) “**weighted average maturity**” is a measure of the average length of time to maturity of all the underlying securities in a Money Market Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Money Market Fund to changing money market interest rates; and
  
  - (ii) “**weighted average life**” is the weighted average of the remaining life of each security held in a Money Market Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available Net Asset Value of such Money Market Fund except:-

- (i) the value of a Money Market Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available Net Asset Value of such Money Market Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves; or
  - (ii) up to 30% of a Money Market Fund's latest available Net Asset Value may be invested in Government and other public securities of the same issue; or
  - (iii) in respect of any deposit of less than US\$1,000,000 or its equivalent in the Base Currency of the relevant Money Market Fund where such Money Market Fund cannot otherwise diversify as a result of its size;
- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available Net Asset Value provided that:
- (i) the aforesaid limit will not apply in respect of cash deposit of less than US\$ 1,000,000 or its equivalent in the Base Currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size;
  - (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (e) the value of a Money Market Fund's holding of money market funds that are 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 may not in aggregate exceed 10% of its latest available Net Asset Value;
- (f) the value of a Money Market Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available Net Asset Value;
- (g) subject to paragraphs 5 and 6 of this Schedule 1, a Money Market Fund may engage in sale and repurchase transactions, and reverse repurchase transactions in compliance with the following additional requirements:

- (i) the amount of cash received by the Money Market Fund under sale and repurchase transactions may not in aggregate exceed 10% of its latest available Net Asset Value;
  - (ii) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the latest available Net Asset Value of the Money Market Fund;
  - (iii) collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
  - (iv) the holding of collateral, together with other investments of the Money Market Fund, must not contravene the investment limitations and requirements set out in the other provisions of this paragraph 7 of this Schedule 1;
- (h) a Money Market Fund may use financial derivative instruments for hedging purposes only;
  - (i) the currency risk of an Money Market Fund should be appropriately managed and any material currency risk that arises from investments of the Money Market Fund that are not denominated in its Base Currency shall be appropriately hedged;
  - (j) a Money Market Fund must hold at least 7.5% of its latest available Net Asset Value in daily liquid assets and at least 15% of its latest available Net Asset Value in weekly liquid assets. For the purposes herein:
    - (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
    - (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities.



## 8. **Index Funds**

- 8.1 In the exercise of its investment powers in relation to a Sub-Fund the principal objective of which is to track, replicate or correspond to a financial index or benchmark (“**Underlying Index**”), with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the Underlying Index (“**Index Fund**”), the Manager shall ensure that the core requirements in paragraphs 1, 2, 4, 5, 6, 9.1, 10.1 and 10.3 of this Schedule 1 shall apply with the modifications or exceptions as set out in sub-paragraphs 8.2 to 8.4 below.
- 8.2 Notwithstanding sub-paragraph 1(a) of this Schedule 1, more than 10% of the latest available Net Asset Value of an Index Fund may be invested in constituent securities issued by a single entity provided that:-
- (a) it is limited to any constituent securities that each accounts for more than 10% of the weighting of the Underlying Index; and
  - (b) the Index Fund’s holding of any such constituent securities may not exceed their respective weightings in the Underlying Index, except where weightings are exceeded as a result of changes in the composition of the Underlying Index and the excess is only transitional and temporary in nature,
- 8.3 Investment restrictions in sub-paragraphs 8.2(a) and (b) of this Schedule 1 do not apply if:
- (a) an Index Fund adopts a representative sampling strategy which does not involve the full replication of the constituent securities of the Underlying Index in the exact weightings of such Underlying Index;
  - (b) the strategy is clearly disclosed in the relevant Appendix of the Index Fund;
  - (c) the excess of the weightings of the constituent securities held by the Index Fund over the weightings in the Underlying Index is caused by the implementation of the representative sampling strategy;
  - (d) any excess weightings of the Index Fund’s holdings over the weightings in the Underlying Index must be subject to a maximum limit reasonably determined by the Index Fund after consultation with the SFC. In determining this limit, the Index Fund must consider the characteristics of the underlying constituent securities, their weightings and the investment objectives of the Underlying Index and any other suitable factors;

- (e) limits laid down for the Index Fund pursuant to sub-paragraph 8.3(d) must be disclosed in the relevant Appendix of the Index Fund; and
- (f) disclosure must be made in the Index Fund's interim and annual financial reports as to whether the limits imposed for the Index Fund itself pursuant to sub-paragraph 8.3(d) of this Schedule 1 have been complied with in full.

8.4 Subject to approval of the SFC, the investment restrictions in sub-paragraphs 1(b) and (c) of this Schedule 1 may be modified and the 30% limit in sub-paragraph 1(f) of this Schedule 1 may be exceeded, and an Index Fund may invest all of its assets in Government and other public securities in any number of different issues despite sub-paragraph 1(f) of this Schedule 1.

## **9. Borrowing and Leverage**

The expected maximum level of leverage of each Sub-Fund is as follows:

### Cash borrowing

- 9.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 9.1.
- 9.2 Notwithstanding sub-paragraph 9.1 of this Schedule 1, a Money Market Fund may borrow up to 10% of its total Net Asset Value but only on a temporary basis for the purposes of meeting redemption requests or defraying operating expenses.

### Leverage from the use of financial derivative instruments

- 9.3 A Sub-Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the relevant Appendix.

9.4 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.

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

**10. Name of Sub-Fund**

10.1 If the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund must, 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.

10.2 The name of a Money Market Fund must not appear to draw a parallel between the Money Market Fund and the placement of cash on deposit.

10.3 The name of an Index Fund must reflect the nature of an index fund.

## **SCHEDULE 2 - SUMMARY OF POLICY OF SECURITIES FINANCING TRANSACTIONS**

The summary of policy of securities financing transactions set out in this Schedule 2 is only applicable to a Sub-Fund which may engage in securities financing transactions.

Securities financing transactions may only be effected in accordance with normal market practice and provided that they are in the best interest of Unitholders of the relevant Sub-Fund to do so and the associated risks have been properly mitigated and addressed.

### ***Securities financing transactions***

Under a securities lending transaction, a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee subject to a commitment from that counterparty that it will return equivalent securities on a specified future date or when requested to do so by the relevant Sub-Fund. A Sub-Fund is expected to retain the rights of beneficial ownership as to the loaned securities, including voting rights and rights to interest or other distributions, and will generally have the right to regain record ownership of loaned securities to exercise such beneficial rights.

Under a sale and repurchase transaction, a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions subject to an agreement to repurchase the securities at an agreed price with a financing cost on a specified future date. Where a Sub-Fund enters into a sale and repurchase transaction under which it sells securities to the counterparty, it will incur a financing cost from engaging in this transaction which will be paid to the relevant counterparty.

Under a reverse repurchase transaction, a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions subject to an agreement to re-sell the relevant securities to the counterparty at an agreed price on a specified future date.

A Sub-Fund must have the right to terminate the securities financing transactions at any time and demand the return of all of the securities loaned or the full amount of cash (as the case may be).

### ***Revenues and expenses***

All 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 financing transactions, shall be returned to the relevant Sub-Fund. Such direct and indirect expenses shall include fees and expenses payable to securities lending agents engaged for the relevant Sub-Fund from time to time. Such fees and expenses of any securities lending agents engaged for the relevant Sub-Fund, will be at normal commercial rates and will be borne by the relevant Sub-Fund in respect of which the relevant party has been engaged.

Information on the revenues generated under such transactions shall be disclosed in the annual and interim financial reports of the relevant Sub-Fund, along with entities to whom direct and indirect operational costs and fees relating to such transactions are paid. These entities may include the Manager, the Investment Delegate or any other their connected persons.

### ***Eligible counterparties***

Please refer to Schedule 3 for further details.

### ***Collateral***

A Sub-Fund must have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.

Please refer to Schedule 3 for further details.

### ***Maximum and expected level of securities financing transactions***

The maximum and expected level of a Sub-Fund's assets available for securities financing transactions are set out in the Appendix of the relevant Sub-Fund.

### ***Types of assets that may be subject to securities financing transactions***

The types of assets that may be subject to securities financing transactions include equity securities, fixed income securities, collective investment schemes, money market instruments and cash. Use of such assets is subject to a Sub-Fund's investment objective and policy.

### ***Connected person(s) arrangement***

The Manager currently does not intend to carry out any securities financing transactions with or through a connected person of the Manager or the Trustee. Details (such as information on income, direct and indirect costs, fees, entities to which such costs and fees are paid and the relationship of the entities with the Manager or the Trustee (if any)) of the securities financing transactions will be disclosed in the relevant Sub-Fund's annual reports.

### ***Safekeeping arrangement***

#### *Assets received*

Assets (including any collateral) received by a Sub-Fund under a title-transfer arrangement should be held by the Trustee or a Correspondent.

#### *Assets provided*

Assets (including any collateral) provided to a counterparty under a title-transfer arrangement shall no longer belong to the Sub-Fund. Assets (including any collateral) provided to a counterparty other than under a title-transfer arrangement shall be held by the Trustee or a Correspondent (which may include the counterparty to the relevant securities financing transaction). Upon the exercise of a right of re-use by a counterparty, such assets will not be safe-kept by the Trustee or a Correspondent and such counterparty may use the assets at its absolute discretion.

### **SCHEDULE 3 – COLLATERAL VALUATION AND MANAGEMENT POLICY**

The Manager employs a collateral management policy in relation to collateral received in respect of securities financing transactions and OTC financial derivative transactions entered into in respect of a Sub-Fund.

A Sub-Fund may receive collateral from a counterparty to a securities financing transaction or OTC derivative transaction in order to reduce its counterparty risk exposure, subject to the investment restrictions and requirements applicable to collateral under Schedule 1.

#### ***Nature and quality of the collateral***

A Sub-Fund may receive both cash and non-cash collateral from a counterparty. Cash collateral may include cash, cash equivalents and money market instruments. Non-cash collateral may comprise of government or corporate bonds whether investment grade / non-investment grade, long/short term bonds, listed or traded in any regulated markets.

#### ***Criteria for selecting counterparties***

The Manager has counterparty selection policies and control measures to manage the credit risks of counterparties of securities financing transactions and OTC derivative transactions which shall include amongst other considerations, fundamental creditworthiness (e.g. ownership structure, financial strength) and commercial reputation of specific legal entities in conjunction with the nature and structure of proposed trading activities, external credit ratings of the counterparty, the regulatory supervision applied to the relevant counterparty, country of origin of the counterparty and legal status of the counterparty.

The counterparty of securities financing transactions must be financial institutions which are subject to ongoing prudential regulation and supervision.

The counterparties of OTC derivative transactions will be entities with legal personality typically located in OECD jurisdictions (but may also be located outside such jurisdictions), and be subject to ongoing supervision by a regulatory authority.

Each counterparty will be an independent counterparty approved by the Manager and is expected to have a minimum credit rating of A- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognised credit rating agencies), or be a licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority when entering into such transactions.

### ***Valuation of collateral***

The collateral received is valued daily by independent pricing source on a mark-to market basis.

### ***Enforceability of collateral***

Collateral must be readily accessible/enforceable by the Sub-Fund without further recourse to the counterparty and will not be available for secondary recourse.

### ***Haircut policy***

A documented haircut policy is in place for detailing the policy in respect of each class of assets received by a Sub-Fund in order to reduce exposure to counterparties. A haircut is a discount applied to the value of a collateral asset to account for the fact that its valuation, or liquidity profile, may deteriorate over time. The haircut arrangement policy applied to posted collateral will be negotiated on a counterparty basis and will vary depending on the class of asset received by the relevant Sub-Fund. Haircuts will be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets. The haircut policy takes account of the price volatility of the asset used as collateral and other specific characteristics of the collateral, including, among others, asset types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the transactions.

Further details of the applicable haircut arrangement for each asset class can be available from the Manager upon request.

### ***Diversification and correlation of collateral***

Collateral must be sufficiently diversified. The exposures of a Sub-Fund to the collateral issuers are monitored in accordance with the relevant restrictions on exposure to a single entity and/or entities within the same group as set out in in Schedule 1.

Collateral received must be issued by an entity that is independent from the relevant counterparty.

### ***Cash collateral reinvestment policy***



A Sub-Fund shall not sell, pledge or re-invest any non-cash collateral received by it.

Subject to the applicable restrictions in respect of collateral in Schedule 1, cash collateral received by a Sub-Fund may be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC.

Up to 100% of the cash collateral received by a Sub-Fund may be reinvested.

### ***Safe-keeping of collateral***

Any non-cash assets received by a Sub-Fund from a counterparty on a title transfer basis (whether in respect of a securities financing transaction or an OTC derivative transaction) should be held by the Trustee or a Correspondent. This is not applicable in the event that there is no title transfer in which case the collateral will be held by a third party custodian which is unrelated to the provider of the collateral.

A description of collateral holdings of each Sub-Fund will be disclosed in its interim and annual financial reports as required under Appendix E of the Code.

Assets provided by a Sub-Fund on a title transfer basis shall no longer belong to the Sub-Fund. The counterparty may use those assets at its absolute discretion. Assets provided to a counterparty other than on a title transfer basis shall be held by the Trustee or a Correspondent.

## APPENDIX 1 – GFI INCOME FUND

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the GFI Income Fund (“Sub-Fund”), a sub-fund of the Fund.*

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### PRINCIPAL TERMS

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#### DEFINITIONS

Terms used in this Appendix shall, unless otherwise defined herein or unless the context otherwise requires, have the same meaning as provided for in the Explanatory Memorandum.

<b>“Amortisation Period”</b>	the first five Accounting Periods from the date of launch of the Sub-Fund or such other period as the Manager after consultation with the Auditors shall determine
<b>“Base Currency”</b>	USD
<b>“Class”</b>	Class A (USD) Units; Class A (HKD) Units; Class A (RMB) Units; Class I (USD) Units; Class I (HKD) Units; Class I (RMB) Units Class B (USD) Units; Class B (HKD) Units; and Class B (RMB) Units
<b>“Class Currency”</b>	Class A (USD) Units, Class I (USD) Units and Class B (USD) Units: USD; Class A (HKD) Units, Class I (HKD) Units and Class B (HKD) Units: HKD; and Class A (RMB) Units, Class I (RMB) Units and Class B (RMB) Units: RMB

<b>“Payment Period”</b>	the relevant Subscription Day on which the relevant Units are issued
<b>“Redemption Day”</b>	each Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for redemption of Units in the Sub-Fund or the relevant Class or Classes in the Sub-Fund
<b>“Redemption Deadline”</b>	4:00 p.m. (Hong Kong time) on the relevant Redemption Day by which a redemption request in respect of the Sub-Fund or a Class of Units must be received or such other time or on such other Business Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of the Sub-Fund or the relevant Class may from time to time be sold
<b>“Sub-Fund”</b>	GFI Income Fund
<b>“Subscription Day”</b>	each Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for subscription of Units in the Sub-Fund or the relevant Class or Classes in the Sub-Fund
<b>“Subscription Deadline”</b>	4:00 p.m. (Hong Kong time) on the relevant Subscription Day by which an application for subscription in respect of the Sub-Fund or a Class of Units must be received or such other time or on such other Business Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of the Sub-Fund or the relevant Class may from time to time be sold
<b>“Valuation Day”</b>	each Business Day on which the Net Asset Value of the Sub-Fund and/or the Net Asset Value of a Unit or a Class of Unit of the Sub-Fund falls to be calculated and in relation to each Subscription Day or Redemption Day (as the case may be) of any Class or Classes of Units means either such Subscription Day or Redemption Day (as the case may be) or such other Business Day or day as the Manager and the Trustee may from time to time determine, either generally or in relation to a particular Class of Units

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## INVESTMENT CONSIDERATIONS

**Investment Objective** The investment objective of the Sub-Fund is to achieve investment returns, comprising income together with capital growth through allocation of investments in a portfolio primarily consisting of debt instruments.

**Investment Policies** *Investment in debt instruments*

The Manager will decide the allocation of investments in the portfolio of the Sub-Fund by geographical locations based on macro-economic conditions.

The Manager will use macro-economic analysis, sector analysis and credit fundamental research on individual companies to select interest rate policies and geographical allocation bottom-up, to select individual companies top-down, and to use quantitative methods to manage the volatility to control the downside risk of the investments of the Sub-Fund.

The Sub-Fund seeks to achieve its investment objective by investing at least 70% of its Net Asset Value in fixed income securities issued by corporations and government agencies.

Fixed income securities invested by the Sub-Fund include bonds, senior unsecured debt, subordinated debt, perpetual bonds, Additional Tier 1 and Tier 2 capital instruments, contingent convertible bonds, convertible bonds, preferred stocks, short-term notes and collateralised and/or securitised products (e.g. asset backed securities and mortgage backed securities). The asset allocation of the Sub-Fund would be as follows:

- (1) Under normal circumstances, the Sub-Fund will invest not less than 30% of its Net Asset Value in bonds rated investment grade or above by an internationally recognised credit rating agency, or at least AA+ where the credit rating is designated/assigned by a Mainland China credit rating agency (the “**Designated Rating**”). In other words, it is intended that the Sub-Fund may invest less than 70% of its Net Asset Value in bonds rated below the Designated Rating or unrated. For the purpose of this Sub-Fund, "investment grade" refers to at least Baa3 by Moody's or BBB- by Standard & Poor's or equivalent ratings as rated by one of the internationally recognised credit rating agencies. A fixed income security is

“**unrated**” where neither the bond itself nor its issuer has a credit rating.

- (2) Subject to applicable regulatory restrictions and internal guidelines, the remaining of the Sub-Fund’s assets (i.e. less than 30% of the Sub-Fund’s Net Asset Value) may be invested in financial instruments of companies or issuers of any size in any sector of the economy such as equities, public funds, structured products and money market instruments consistent with the Sub-Fund’s objective.
- (3) The Sub-Fund may invest not more than 75% of its Net Asset Value in bonds issued by corporations in a single industry/sector (e.g. real estate companies, banks or other financial institutions).
- (4) The value of the Sub-Fund’s total holding of Government and other public securities may exceed 30% of its Net Asset Value. Up to 30% of the Sub-Fund’s Net Asset Value may be invested in Government and other public securities of the same issue. Subject to the foregoing, where the Sub-Fund invests all of its assets in Government and other public securities, the Sub-Fund will invest in at least six different issues of such Government and other public securities.
- (5) The Sub-Fund may invest less than 45% of its Net Asset Value in aggregate in instruments with loss-absorption features, with a breakdown as follows:
  - Additional Tier 1 capital instruments and contingent convertible bonds: 0-40% of the Net Asset Value
  - Tier 2 capital instruments: 0-20% of the Net Asset Value
  - Other instruments with loss-absorbing features (including but not limited to senior non-preferred debt and subordinated debt with loss absorbing features): 0-20% of the Net Asset Value

These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger events.

- (6) The Sub-Fund will not invest more than 10% of its Net Asset Value

in securities issued by and/or guaranteed by any single sovereign that is rated below investment grade and/or unrated (including its government, public or local authority).

- (7) The Sub-Fund may invest up to 90% of its Net Asset Value in offshore fixed income securities issued by Mainland Chinese companies or its subsidiaries or the companies whose revenues are mainly from Mainland China, including “Dim Sum” bonds (i.e. bonds issued outside of Mainland China but denominated in RMB).
- (8) The Sub-Fund may invest less than 75% of its Net Asset Value in fixed income securities traded on the CIBM via Bond Connect (including Urban Investment Bonds in the Mainland China).

The Sub-Fund will not have any particular focus on currency denomination of the fixed income securities. In respect of the convertible bonds that are due to be converted into equities, the Sub-Fund intends to dispose of such equities upon conversion.

#### ***Holding of cash and cash equivalents under exceptional circumstances***

Under exceptional circumstances (such as a prolonged bearish market with market volatilities rising, deteriorating sentiments or rapidly worsening economic fundamentals), the Sub-Fund may hold temporarily up to 100% of its Net Asset Value in cash and cash equivalents (e.g. certificates of deposit, commercial paper and treasury bills) for cash flow management in order to defend against market turmoil and to capture future investment opportunities as and when they arise.

The Manager will seek the SFC’s prior approval (if required) and give at least one month’s prior notice (or such other notice period as may be agreed with the SFC from time to time) to investors (if required), should there be any changes to the investment objective and policy as stated above.

#### **Use of Derivatives**

The Sub-Fund may invest in financial derivative instruments (including but not limited to, interest rate swaps, credit derivatives, forward contracts and options) to the extent permitted by the investment restrictions under Chapter 7 of the Code and this Explanatory Memorandum.

The Sub-Fund’s net derivative exposure may be up to 50% of the Sub-

Fund's Net Asset Value.

**Investment and  
Borrowing Restrictions**

The Sub-Fund is subject to the investment and borrowing restrictions as set out in the Explanatory Memorandum under the heading “*Investment Restrictions*” and “*Borrowing Restrictions*”.

**Securities Financing  
Transactions**

The Manager may, on behalf of a Sub-Fund, enter into sale and repurchase transactions and/or reverse repurchase transactions on the OTC markets for up to 50% of the Net Asset Value of the Sub-Fund with a view to creating additional income.

The Manager currently does not intend to carry out any sale and repurchase and transactions reverse repurchase transactions with or through a connected person of the Manager or the Trustee. Details (such as information on income, direct and indirect costs, fees, entities to which such costs and fees are paid and the relationship of the entities with the Manager or the Trustee (if any)) of the repurchase transactions and/or reverse repurchase transactions will be disclosed in the Sub-Fund's annual reports.

The Manager does not intend to enter into any securities lending or other similar over-the-counter transactions in respect of the Sub-Fund. The approval of the SFC will be sought and at least one month's prior notice will be given to Unitholders should there be a change in such intention.

Please refer to Schedule 2 to the Explanatory Memorandum for a summary of policy of securities financing transactions, and Schedule 3 to the Explanatory Memorandum for the collateral management policy in relation to collateral received in respect of securities financing transactions.

**SPECIFIC RISK FACTORS**

**In addition to the relevant risks mentioned in the “*Risk Factors*” section in the Explanatory Memorandum, investors should also take note of the following risks associated with investment in the Sub-Fund.**

**Risk relating to geographical allocation strategy** to The allocation of the Sub-Fund's investments by geographical locations changes based on macro-economic conditions. The investments of the Sub-Fund may be periodically rebalanced and therefore the Sub-Fund may incur greater transaction costs than a fund with static allocation

strategy. Such geographical allocation strategy may not achieve the desired results under all circumstances and market conditions.

#### INVESTING IN THE FUND AND REDEMPTION OF UNITS

<b>Classes</b>	<b>Class A (USD) Units</b>	<b>Class A (HKD) Units</b>	<b>Class A (RMB) Units</b>
<b>Initial Offer Price</b>	USD1.00	HKD1.00	RMB1.00
<b>Minimum Initial Subscription Amount</b>	USD100	HKD1,000	RMB1,000
<b>Minimum Subsequent Subscription Amount</b>	USD100	HKD1,000	RMB1,000
<b>Minimum Redemption Amount</b>	USD100	HKD1,000	RMB1,000
<b>Minimum Holding Amount</b>	USD100	HKD1,000	RMB1,000

<b>Classes</b>	<b>Class I (USD) Units*</b>	<b>Class I (HKD) Units*</b>	<b>Class I (RMB) Units*</b>
<b>Initial Offer Price</b>	USD1.00	HKD1.00	RMB1.00
<b>Minimum Initial Subscription Amount</b>	USD20,000,000	HKD200,000,000	RMB200,000,000
<b>Minimum Subsequent Subscription Amount</b>	USD1,000,000	HKD10,000,000	RMB10,000,000
<b>Minimum Redemption Amount</b>	USD1,000,000	HKD10,000,000	RMB10,000,000



<b>Minimum Holding Amount</b>	USD200,000	HKD1,000,000	RMB1,000,000
<b>Classes</b>	<b>Class B (USD) Units*</b>	<b>Class B (HKD) Units*</b>	<b>Class B (RMB) Units*</b>
<b>Initial Offer Price</b>	USD1.00	HKD1.00	RMB1.00
<b>Minimum Initial Subscription Amount</b>	USD50,000,000	HKD400,000,000	RMB400,000,000
<b>Minimum Subsequent Subscription Amount</b>	USD10,000,000	HKD100,000,000	RMB100,000,000
<b>Minimum Redemption Amount</b>	USD10,000,000	HKD100,000,000	RMB100,000,000
<b>Minimum Holding Amount</b>	USD200,000	HKD1,000,000	RMB1,000,000

*\* Class I and Class B Units are offered to institutional investors only and are not available to the public in Hong Kong.*

## CONVERSION

Unitholders shall be entitled to convert all or part of their Units of a Class of the Sub-Fund into Units of another Class in the Sub-Fund or into Units of another Sub-Fund (if any) available for subscription or conversion. Units of a Class can only be converted into Units of the same Class of another Sub-Fund.

## DISTRIBUTION POLICY

### Distribution Class(es)

Class A (USD) Units, Class A (HKD) Units, Class A (RMB) Units, Class I (USD) Units, Class I (HKD) Units, Class I (RMB) Units, Class B (USD) Units, Class B (HKD) Units and Class B (RMB) Units are Distribution Classes. Net distributable income of the relevant Distribution Class will be distributed on a monthly basis, subject to the Manager's discretion. Distributions may, at the

Manager's discretion, be paid out of the capital of the Sub-Fund. The Sub-Fund may also charge all or part of its fees and expenses to capital which means that the Sub-Fund may effectively pay distributions out of capital. Payment of distributions out of capital or effectively out of capital represents a return or a withdrawal of part of the amount the Unitholders originally invested or capital gain attributable to that amount. Any such distributions will result in an immediate decrease in the Net Asset Value of the Units.

Please refer to the section headed "*Distribution Policy*" and the risk factor headed "*Distributions risk*" in the main part of the Explanatory Memorandum for further details.

## FEES AND EXPENSES

### Fees payable by investors:

Class	Class A (USD) Units, Class A (HKD) Units and Class A (RMB) Units	
	Current	Maximum

<b>Subscription Charge</b>	2%	5%
(% of the total subscription amount)		

<b>Redemption Charge</b>	2%	5%
(% of the total redemption amount)		

The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit.

<b>Switching Fee</b>	1%	1%
(% of the total monetary amount being switched out)		

Class	Class I (USD) Units, Class I (HKD) Units and Class I (RMB) Units	
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	<b>Current</b>	<b>Maximum</b>
<b>Subscription Charge</b>	0%	5%
(% of the total subscription amount)		
<b>Redemption Charge</b>	0%	5%
(% of the total redemption amount)		
	The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit.	
<b>Switching Fee</b>	1%	1%
(% of the total monetary amount being switched out)		
<b>Class</b>	<b>Class B (USD) Units, Class B (HKD) Units and Class B (RMB) Units</b>	
	<b>Current</b>	<b>Maximum</b>
<b>Subscription Charge</b>	0%	5%
(% of the total subscription amount)		
<b>Redemption Charge</b>	0%	5%
(% of the total redemption amount)		
	The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit.	
<b>Switching Fee</b>	1%	1%
(% of the total monetary amount being switched out)		

**Fees and expenses payable from assets of the Sub-Fund:**

	<b>Current</b>	<b>Maximum</b>
<p><b>Management Fee</b> (% of the Net Asset Value of the relevant Class per annum)</p>	<p><b>Class A (USD) Units, Class A (HKD) Units and Class A (RMB) Units:</b> 1.2%</p> <p><b>Class I (USD) Units, Class I (HKD) Units and Class I (RMB) Units:</b> 0.8%</p> <p><b>Class B (USD) Units, Class B (HKD) Units and Class B (RMB) Units:</b> 0.4%</p>	<p>3%</p>
<p><b>Trustee Fee</b> (% of the Net Asset Value of the relevant Class per annum)</p>	<p>up to 0.14%, subject to a minimum monthly fee of USD6,000 per Sub-Fund</p>	<p>0.5%, subject to a minimum monthly fee of USD6,000 per Sub-Fund</p>
<p><b>Custody Fee</b> (% of the Net Asset Value of the Sub-Fund per annum)</p>	<p>up to 0.025%</p>	
<p><b>Establishment Costs</b></p>	<p>The establishment costs of the Sub-Fund are approximately USD50,000 and will be borne by the Sub-Fund. The establishment costs will be amortised over the Amortisation Period.</p>	
<p><b>General Expenses</b></p>	<p>Please refer to the section headed “<i>General Expenses</i>” in the Explanatory Memorandum for further details.</p>	

## APPENDIX 2 – GFI SELECT GREATER CHINA GROWTH FUND

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the GFI Select Greater China Growth Fund (“Sub-Fund”), a sub-fund of the Fund.*

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### PRINCIPAL TERMS

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#### DEFINITIONS

Terms used in this Appendix shall, unless otherwise defined herein or unless the context otherwise requires, have the same meaning as provided for in the Explanatory Memorandum.

<b>“Amortisation Period”</b>	the first five Accounting Periods from the date of launch of the Sub-Fund or such other period as the Manager after consultation with the Auditors shall determine
<b>“Base Currency”</b>	USD
<b>“Class”</b>	Class A (USD) Units; Class A (HKD) Units; Class A (RMB) Units; Class A (USD) PF Units; Class A (HKD) PF Units; Class A (RMB) PF Units; Class I (USD) Units; Class I (HKD) Units; Class I (RMB) Units; Class I (USD) PF Units; Class I (HKD) PF Units; and Class I (RMB) PF Units
<b>“Class Currency”</b>	Class A (USD) Units, Class A (USD) PF Units, Class I (USD) Units and Class I (USD) PF Units: USD;  Class A (HKD) Units, Class A (HKD) PF Units, Class I (HKD) Units and Class I (HKD) PF Units: HKD; and  Class A (RMB) Units, Class A (RMB) PF Units, Class I (RMB) Units and Class I (RMB) PF Units: RMB

<b>“Initial Offer Period”</b>	the period commencing 9:00 a.m. (Hong Kong time) on 30 May 2022 to 4:00 p.m. (Hong Kong time) on 31 May 2022 (or such other dates as the Manager may determine)
<b>“Payment Period”</b>	the relevant Subscription Day on which the relevant Units are issued
<b>“PRC Broker”</b>	A broker appointed by the QFI Holder to conduct execution and settlement of transactions or the transfer of any funds or securities.
<b>“QFI Custodian”</b>	Bank of China Limited
<b>“QFI Holder”</b>	GF International Investment Management Limited
<b>“Redemption Day”</b>	each Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for redemption of Units in the Sub-Fund or the relevant Class or Classes in the Sub-Fund
<b>“Redemption Deadline”</b>	4:00 p.m. (Hong Kong time) on the relevant Redemption Day by which a redemption request in respect of the Sub-Fund or a Class of Units must be received or such other time or on such other Business Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of the Sub-Fund or the relevant Class may from time to time be sold
<b>“Sub-Fund”</b>	GFI Select Greater China Growth Fund
<b>“Subscription Day”</b>	each Business Day or such other day or days as the Manager and the Trustee may from time to time determine, either generally or in respect of a particular Class or Classes of Units, for effecting any requests for subscription of Units in the Sub-Fund or the relevant Class or Classes in the Sub-Fund
<b>“Subscription Deadline”</b>	4:00 p.m. (Hong Kong time) on the relevant Subscription Day by which an application for subscription in respect of the Sub-Fund or a Class of Units must be received or such other time or on such other Business Day or day as the Manager with the approval of the Trustee may from time to time determine generally or in relation to any particular jurisdiction in which Units of the Sub-Fund or the relevant Class may from time to time be sold
<b>“Valuation Day”</b>	each Business Day on which the Net Asset Value of the Sub-Fund and/or the Net Asset Value of a Unit or a Class of Unit of the Sub-Fund falls to be calculated and in relation to each Subscription Day or Redemption Day (as the case may be) of any Class or Classes of Units means either such Subscription Day or Redemption Day (as the case may be) or such other Business Day or day as the Manager and the Trustee may from time to time determine, either generally or in relation to a particular Class of Units

## MANAGEMENT AND ADMINISTRATION OF THE FUND

<b>QFI Custodian</b>	The Sub-Fund invests directly in securities and instruments issued or distributed within Mainland China through the QFI Holder. The QFI Holder is required to appoint a custodian in the Mainland China for the custody of assets, pursuant to relevant laws and regulations. Under applicable laws and regulations, the QFI
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Custodian is responsible for the custody of all assets of the Sub-Fund within the Mainland China. It will supervise the operation of the investments that are made through the QFI regime, handle the remittance and repatriation of funds and report to the relevant Mainland China relevant authorities in the Mainland China.

Bank of China Limited ("Bank") has been appointed as the QFI Custodian in respect of the investments held by the Sub-Fund via the QFI regime.

The QFI Custodian is incorporated in Mainland China as a commercial bank. It is one of the four state-owned commercial banks of the PRC and its current businesses cover commercial banking, investment banking, insurance and a wide range of other financial services.

As a Chinese financial institution with a history of over a hundred years, the Bank has introduced many brand new products and services in the domestic banking industry and provide customers with international settlement, foreign exchange, trade finance, and custodian services etc.

Pursuant to the Participation Agreement in relation to QFI Facility and Custody Arrangement, the Bank will act as the QFI Custodian of the Sub-Fund's assets. The appointment of the QFI Custodian may be terminated by not less than ninety (90) days' notice in writing.

**QFI Holder**

GF International Investment Management Limited

**INVESTMENT CONSIDERATIONS**

**Investment Objective**

The investment objective of the Sub-Fund is to achieve long term stable capital growth through investment in a portfolio primarily consisting of equity securities of companies which are organised, have economic activities, whose revenues and profits are mainly derived in, or whose business operations are related to, Mainland China, Hong Kong or Macau ("**Greater China companies**") that demonstrate long-term growth characteristics.

**Investment Policies**

***Investment in equity securities***

The Sub-Fund seeks to achieve its investment objective by investing at least 70% of its Net Asset Value in equity securities of Greater China companies listed on exchanges in Mainland China, Hong Kong or the US. These equity securities include, but are not limited to, common stocks, preferred stocks, and American depositary receipts.

The Sub-Fund will invest at least 70% of its Net Asset Value in equity securities of companies that the Manager believes have growing value. The Manager may from time to time determine the definition of growing value with reference to the major financial or stock market indices which track the performance of growing companies. In seeking to achieve the Sub-Fund's investment objective, the Manager will seek investment opportunities following the changes in supply and demand, and industrial investment opportunities arising from innovation. At

the same time, the Manager will also diversify risk by investing in growing industries with low correlation.

The Manager will construct the portfolio of the Sub-Fund and select investments based on the combination of top-down (such as macro-economic analysis and sector analysis) and bottom-up (such as individual company analysis) research.

The Sub-Fund may invest up to 100% of its Net Asset Value in securities in Mainland China, such as equity securities of Greater China companies listed on the exchanges in Mainland China through the QFI status of the QFI Holder and/or Stock Connect. These include securities listed on the SZSE ChiNext Market (“**ChiNext Market**”) and SSE Science and Technology Innovation Board (“**Star Board**”). These may also include up to 10% of the Sub-Fund’s Net Asset Value in equity securities listed on the Beijing Stock Exchange through the QFI status of the QFI Holder.

#### ***Investment in other securities***

For the remaining assets, the Sub-Fund may invest less than 30% of its Net Asset Value in any asset classes and geographies and in securities issued by issuers of any market sectors and market capitalisation, such as fixed income securities (including bonds, senior unsecured debt, subordinated debt, perpetual bonds, convertible bonds, preferred stocks, short-term notes and collateralised and/or securitised products (e.g. asset backed securities and mortgage backed securities)), structured products, money market instruments and collective investment schemes (including money market funds) consistent with the Sub-Fund’s investment objective.

The Sub-Fund may invest less than 20% of its Net Asset Value in aggregate in instruments with loss-absorption features, with a breakdown as follows:

- Additional Tier 1 capital instruments and contingent convertible bonds: less than 20% of the Net Asset Value
- Tier 2 capital instruments: up to 5% of the Net Asset Value
- Other instruments with loss-absorbing features (including but not limited to senior non-preferred debt and subordinated debt with loss absorbing features): up to 5% of the Net Asset Value

These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger events.

The Sub-Fund will not invest more than 10% of its Net Asset Value in securities issued by and/or guaranteed by any single sovereign that is rated below investment grade and/or unrated (including its government, public or local authority).

#### ***Holding of cash and cash equivalents under exceptional circumstances***

Under exceptional circumstances (such as a prolonged bearish market with market volatilities rising, deteriorating sentiments or rapidly worsening economic fundamentals), the Sub-Fund may hold temporarily up to 100% of its Net Asset Value in cash and cash equivalents (e.g. certificates of deposit, commercial paper and treasury bills) for cash flow management in order to



defend against market turmoil and to capture future investment opportunities as and when they arise.

The Manager will seek the SFC's prior approval (if required) and give at least one month's prior notice (or such other notice period as may be agreed with the SFC from time to time) to investors (if required), should there be any changes to the investment objective and policy as stated above

**Use of Derivatives**

The Sub-Fund may invest in financial derivative instruments (including but not limited to, interest rate swaps, futures, credit derivatives, forward contracts and options), for investment and hedging purposes, to the extent permitted by the investment restrictions under Chapter 7 of the Code and this Explanatory Memorandum.

The Sub-Fund's net derivative exposure may be up to 50% of the Sub-Fund's Net Asset Value.

**Investment and  
Borrowing Restrictions**

The Sub-Fund is subject to the investment and borrowing restrictions as set out in the Explanatory Memorandum under the heading "**Investment Restrictions**" and "**Borrowing Restrictions**".

**Securities Financing  
Transactions**

The Manager does not intend to enter into any securities financing transactions or other similar over-the-counter transactions in respect of the Sub-Fund. The approval of the SFC will be sought and at least one month's prior notice will be given to Unitholders should there be a change in such intention.

**QFI**

Currently it is intended that the Sub-Fund may have exposure to securities and instruments issued or distributed in the Mainland China by using the QFI status of the QFI Holder.

The QFI regime is governed by rules and regulations as promulgated by the Mainland Chinese authorities, i.e., the CSRC, the SAFE and the PBOC. Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors jointly issued by the CSRC, the PBOC and the SAFE on 25 September 2020 and effective from 1 November 2020 (《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》);
- (ii) the Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors jointly issued by the CSRC, the PBOC and the SAFE on 25 September 2020 and effective from 1 November 2020 (關於實施《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》有關問題的規定);
- (iii) the "Regulations on Funds of Securities and Futures Investment by Foreign Institutional Investors" issued by the PBOC and the SAFE on 7 May 2020 and effective from 6 June 2020 (《境外機構投資者境內證券期貨投資資金管理規定》); and

- (iv) any other applicable regulations promulgated by the relevant authorities.

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

- (a) Where the Manager (as the QFI Holder) appoints multiple QFI custodians, one of which should be designated as the principal QFI custodian;
- (b) securities account(s) with relevant depositories and RMB special deposit account(s) with the QFI Custodian (respectively, the “securities account(s)” and the “cash account(s)”) have been opened in the joint names of the Manager and the Sub-Fund for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (c) the assets held/credited in the securities account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the QFI Holder), the Custodian, the QFI Custodian and any PRC Broker(s) and from the assets of other clients of the Manager (as the QFI Holder), the Custodian, the QFI Custodian and any PRC Broker(s);
- (d) the assets held/credited in the cash account(s) (i) become an unsecured debt owing from the QFI Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the QFI Holder) and any PRC Broker(s), and from the assets of other clients of the Manager (as the QFI Holder) and any PRC Broker(s);
- (e) the Trustee, for and on behalf of the Sub-Fund is the only entity which has a valid claim of ownership over the assets in the securities account(s) and the debt in the amount deposited in the cash account(s) of the Sub-Fund;
- (f) if the Manager (as the QFI Holder) or any PRC Broker(s) is liquidated, the assets contained in the securities account(s) and cash account(s) of the Sub-Fund will not form part of the liquidation assets of the Manager (as the QFI Holder) or such PRC Broker(s) in liquidation in the PRC; and
- (g) if the QFI Custodian is liquidated, (i) the assets contained in the securities account(s) of the Sub-Fund will not form part of the liquidation assets of the QFI Custodian in liquidation in the PRC, and (ii) the assets contained in the cash account(s) of the Sub-Fund will form part of the liquidation assets of the QFI Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash account(s).

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

- (i) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including assets deposited in the securities account(s) and cash account(s) with the QFI Custodian, and holds the same in trust for the Unitholders;
- (ii) the Trustee registers the assets of the Sub-Fund, including assets deposited in the securities account(s) and cash account(s) with the QFI Custodian, to the order of the Trustee; and

- (iii) the QFI Custodian will look to the Trustee for instructions (through the Custodian) and solely act in accordance with such instructions, save as otherwise required under applicable regulations.
- (iv) The Manager, as the QFI Holder, will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the QFI Holder. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly and in the best interests of the Unitholders.

## Stock Connect

Stock Connect is a securities trading and clearing linked programme developed by the SEHK, the SSE, the SZSE and the China Securities Depository and Clearing Corporation (“**ChinaClear**”), with an aim to achieve 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 the Shenzhen-Hong Kong Stock Connect comprises a Northbound Trading Link (for investment in PRC shares) and a Southbound Trading Link (for investment in Hong Kong shares). Under the Northbound Trading Link, investors, through their Hong Kong brokers who are eligible participants of the Stock Connect, may be able to place orders to trade eligible shares listed on the SSE or the SZSE by routing orders to the SSE or the SZSE (as the case may be). Under the Southbound Trading Link, eligible investors, through PRC securities firms who are eligible participants of the Stock Connect, may be able to place orders to trade eligible shares listed on the SEHK by routing orders to the SEHK.

All Hong Kong and overseas investors may be allowed to trade SSE-listed securities and SSZE-listed securities (as described below) through the Stock Connect (through the Northbound trading link), subject to rules and regulations issued from time to time.

The following summary presents some key points about the Northbound trading link (which may be utilized by the Sub-Fund to invest in the Mainland China):

### Eligible securities

Among the different types of SSE-listed securities and SZSE-listed securities, only China A-Shares are currently permitted for Northbound trading under the Stock Connect. Other product types such as China B-Shares, Exchange Traded Funds (ETFs), bonds, and other securities are not included in the programme. Currently, Hong Kong and overseas investors are allowed to trade certain stocks listed on the SSE market (“**SSE Securities**”) and the SZSE market (the “**SZSE 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 China 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 under “risk alert”.

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 China A-Shares which have corresponding H shares listed on SEHK, except the following:

- a) SZSE-listed shares which are not traded in RMB; and
- b) SZSE-listed shares which are under “risk alert” or under delisting arrangement.

The list of eligible securities may be changed subject to the review and approval by the relevant PRC regulators from time to time.

#### Trading day

Due to differences in public holidays between Hong Kong and Mainland China, there may be differences in the trading days in the two markets. Even if the Mainland China markets are open on a certain day, the Sub-Fund may not necessarily be able to invest in China A-Shares through Northbound trading. For example, the Hong Kong market will close on Easter and Christmas every year, but those are trading days in Mainland China. Likewise, during Lunar New Year and the National Day golden week periods, Mainland China will usually arrange for seven-day consecutive holidays by reshuffling workdays and weekends. Even on days both markets are scheduled to be open for business, there could be differences because of other reasons such as typhoon number 8 signal in Hong Kong. Investors (including the Sub-Fund) will only be allowed to trade on the other market on days where both 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 will be subject to a daily quota (“**Daily Quota**”), which will be separate for Northbound and Southbound trading, for each of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. 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 Daily Quota at scheduled times on the HKEx’s website.

#### Settlement and Custody

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

The China A-Shares traded through the Stock Connect are issued in scripless form, so investors will not hold any physical China A-Shares. Investors do not hold SSE Securities or SZSE Securities directly – these are held through their brokers’ or custodians’ accounts with the Central Clearing and Settlement

System (“CCASS”), operated by Hong Kong Securities Clearing Company Limited.

#### 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 ChinaClear, ChinaClear as the share registrar for SSE or SZSE listed companies will still treat the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities or SZSE Securities. HKSCC will monitor the corporate actions affecting SSE Securities or SZSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

#### Currency

Hong Kong and overseas investors will trade and settle SSE Securities and SZSE Securities in RMB only. Hence, the Sub-Fund will need to use its RMB funds to trade and settle SSE Securities and SZSE Securities.

#### Trading fees and taxes

In addition to paying trading fees and stamp duties in connection with the trading of China A-Shares, the Sub-Fund may be subject to other fees and taxes concerned with income arising from stock transfers which are determined by the relevant authorities.

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

(The website(s) referred to in this sub-section have not been reviewed by the SFC.)

### **Performance fee**

The Manager is entitled to charge a performance fee to Class A (USD) PF Units, Class A (HKD) PF Units, Class A (RMB) PF Units, Class I (USD) PF Units, Class I (HKD) PF Units and Class I (RMB) PF Units of the Sub-Fund for each performance period.

Each performance period corresponds to the financial year of the Sub-Fund, which will run from the first Valuation Day of the financial year of the Sub-Fund to the last Valuation Day of such financial year, except that the first performance period is from the launch date of the Sub-Fund to the last Valuation Day of 2022.

Performance fee will be calculated in accordance with the calculation methodology set out below:

#### **(i) Performance fee calculation**

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

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

where:

“A” is the Net Asset Value per Unit of a Class (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 shall be the higher of: (i) the Initial Offer Price of a Class; and (ii) the Net Asset Value per Unit of a Class as at the end of any previous performance period in respect of which a performance fee was paid (i.e. 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 of a Class on the last Valuation Day of that performance period will be set as the High Water Mark for the next performance period. The High Water Mark will only be calculated once in each performance period.

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

“C” is the rate of performance fee payable: 15%

“D” is the number of Units of a Class in issue on the last Valuation Point at the end of that relevant performance period.

**(ii) Performance fee accrual**

The performance fee shall be accrued on each Valuation Day throughout a performance period, which means that the Issue Price on each Valuation Day will be the Net Asset Value per Unit after deduction of the performance fee accrual.

If the Net Asset Value per Unit of a Class exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. The performance fee accrual will also be calculated afresh on each Valuation Day. As such, on each Valuation Day, the performance fee accrual made on the previous Valuation Day will be reversed and a new performance fee accrual will be calculated using the latest Net Asset Value of the relevant Class. If the Net Asset Value per Unit of the relevant Class 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 Unit of a Class subscribed for or redeemed during a performance period will be based on the Net Asset Value per Unit of the relevant Class (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 of the relevant Class 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.

If any Units are redeemed on a Redemption Day, the performance fee accrued up to such Redemption Day in respect of such Units will be crystallised and be paid to the Manager as soon as practicable after the end of the relevant performance period.

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 of a Class during a performance period. The Unitholders may be advantaged or disadvantaged as a result of this calculation methodology.

For instance, an Unitholder will be advantaged if he subscribes to a Class of Units during a performance period when the Net Asset Value per Unit of a Class is below the High Water Mark, and redeems prior to the end of such performance period when the Net Asset Value per Unit of the relevant Class 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, an Untholder will be disadvantaged if he subscribes to a Class of Units during a performance period when the Net Asset Value per Unit of a Class 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 of the relevant Class at the time of redemption has decreased but remains above the High Water Mark. Under such circumstances, he has paid the performance fee despite of a loss as his subscription price of the Units of the relevant Class has taken into account a provision for the performance fee.

### **(iii) Illustrative examples**

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

Assumptions:

- Take Class I (USD) PF Units as an example. The Initial Offer Price for Class I (USD) PF Units is USD1.000000 per Unit.
- The performance fee payable is 15% of the increase in the Net Asset Value per Unit of the relevant Class during a performance period above the High Water Mark (i.e. outperformance of Net Asset Value per Unit of the relevant Class).
- Investor A subscribes for 1,000,000 Units of Class I (USD) PF Units during the Initial Offer Period at the Initial Offer Price of USD1.000000 per Unit and the Sub-Fund is launched on 1 March 2022.
- Investor B subscribes for 1,000,000 Units of Class I (USD) PF Units within the first performance period in year 2022 at the date of 30 June 2022 at an Issue Price of USD1.005000 per Unit.
- At the last Valuation Day of the first performance period (31 December 2022), the Net Asset Value per Unit of the of Class I (USD) PF Units is USD1.070000.

- Investor B redeems 500,000 Units on 30 June 2023 during the second performance period and the Net Asset Value per Unit of Class I (USD) PF Units on the Valuation Day (30 June 2023) is USD1.120000.
- At the last Valuation Day of the second performance period (31 December 2023), the Net Asset Value per Unit of the of Class I (USD) PF Units is USD1.050000.

	<b>Year 2022 (Day 306)</b>	<b>30 June 2023 (Day 181)</b>	<b>Year 2023</b>
<b>(1) A: Net Asset Value per Unit of the relevant Class before deduction of any performance fee as at the end of the year or Redemption Day</b>	Assumption: USD1.070000	Assumption: USD1.120000	Assumption: USD1.050000
<b>(2) B: High Water Mark</b>	The Initial Offer Price = USD1.000000	USD1.059500	USD1.059500
<b>(3) Is (1) &gt; (2)?</b>	Yes	Yes	No
<b>(4) D: number of Units in issue</b>	2,000,000	500,000	1,500,000
<b>(5) performance fee payable</b>	USD21,000.000000 = (1.070000 - 1.000000)* 2,000,000*15%	USD4,537.000000 = (1.120000 - 1.059500)* 500,000*15%	Nil
<b>(6) Net Asset Value per Unit after deduction of performance fee payable</b>	USD1.059500 = (1.070000* 2,000,000 - 21,000.000000)/2,000,000	-	USD 1.050000

**For the first performance period in year 2022:**

- (I) the Net Asset Value per Unit (before deduction of any performance fee as at the end of the year or Redemption Day) is above the High Water Mark at the end of performance period, which means that there is performance fee payable:

The High Water Mark is the Initial Offer Price of the Class which is USD1.000000. Assuming that by the end of the first performance period (year 2022), the Net Asset Value per Unit of Class I (USD) PF Units is USD1.070000. The outperformance of Net Asset Value per Unit of Class I (USD) PF Units is thus USD0.070000. The number of Units in issue immediately on this Valuation Day is 2,000,000 Units.

The total performance fee payable by the Sub-Fund in respect of Class I (USD) PF Units would be calculated as:

$$(USD1.070000 - USD1.000000) \times 15\% \times 2,000,000 \text{ Units} = USD21,000.000000.$$



At the end of the first performance period, the Net Asset Value per Unit of Class I (USD) PF Units will be reduced by USD0.010500 (USD21,000.000000/2,000,000 Units).

In effect, each of Investors A and B will have borne USD10,500.000000 of the performance fee in respect of the first performance period.

**For the second performance period in year 2023:**

- (I) the Net Asset Value per Unit is above the High Water Mark on a particular Valuation Day, which means that there is performance fee accrual; and
- (II) the Net Asset Value per Unit below the High Water Mark at the end of performance period, which means that there is no performance fee payable.

At the start of the second performance period, the High Water Mark for year 2023 is USD1.059500, being the Net Asset Value per Unit of the relevant Class at the end of the last performance period (year 2022) after deduction of performance fee (= USD1.070000 – USD0.010500).

On 30 June 2023 during the second performance period, Investor B redeems 500,000 Units. Assuming that the Net Asset Value per Unit of Class I (USD) PF Units on 30 June 2023 is USD1.120000. On this Valuation Day, the Net Asset Value per Unit of Class I (USD) PF Units exceeds the High Water Mark. Therefore, performance fee is accrued in respect of the Units redeemed by Investor B and the same will be crystallised and be paid to the Manager as soon as practicable after the end of the second performance period.

The total performance fee payable by the Sub-Fund in respect of Class I (USD) PF Units would be calculated as:

$$(USD1.120000 - USD1.059500) \times 15\% \times 500,000 \text{ Units} = USD4,537.000000.$$

In effect, Investor B will have borne the USD 4,537.000000 of the performance fee in respect of the redemption on 30 June 2023.

By the end of the second performance period, assuming that the Net Asset Value per Unit of Class I (USD) PF Units is USD1.050000. On this Valuation Day, the High Water Mark in year 2023 is USD1.059500. The Net Asset Value per Unit of Class I (USD) PF Units does not exceed the High Water Mark. Therefore, no performance fee is therefore payable at the end of the second performance period.

**SPECIFIC RISK FACTORS**

**In addition to the relevant risks mentioned in the “Risk Factors” section in the Explanatory Memorandum, investors should also take note of the following risks associated with investment in the Sub-Fund.**

## **QFI risk**

The Sub-Fund is not a QFI but may obtain access to onshore Mainland China equity securities or other permissible investments directly using the QFI status of a QFI. The Sub-Fund may invest directly in QFI eligible securities investment via the QFI status of the QFI Holder.

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

The PBOC and SAFE regulate and monitor the repatriation of funds out of the PRC by the QFI pursuant to the QFI rules and regulations. Repatriations by QFIs in respect of the Sub-Fund are currently not subject to repatriation restrictions or prior approval, although a review on authenticity and compliance will be conducted on each remittance and repatriation by the QFI Custodian. The repatriation process may be subject to certain requirements set out in the relevant regulations such as submission of certain documents, and completion of the repatriation process may be subject to delay. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from the investors. Furthermore, as the QFI Custodian's review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the QFI Custodian in case of non-compliance with the QFI rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming investors as soon as practicable after completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

The rules and restrictions under QFI regulations generally apply to the QFI as a whole and not simply to the investments made by the Sub-Fund. Relevant PRC regulators are vested with the power to impose regulatory sanctions if the QFI or the QFI Custodian violates any provision of the QFI rules. Any violations could result in the revocation of the QFI's licence or other regulatory sanctions and may adversely impact on the investment by the Sub-Fund.

Investors should note that there can be no assurance that a QFI will continue to maintain its QFI status, or that redemption requests can be processed in a timely manner due to regulations on repatriation or adverse changes in relevant laws or regulations. Such restrictions may respectively result in a rejection of applications and a suspension of dealings of the Sub-Fund. In extreme circumstances, the Sub-Fund may incur significant losses due to limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to QFI investment restrictions, illiquidity of the Chinese domestic securities market, and/or delay or disruption in execution of trades or in settlement of trades.

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

**Application of QFI rules** – The QFI rules and regulations described under the sub-section headed “QFI” under the section headed “INVESTMENT CONSIDERATIONS” in this Appendix 2 enable Renminbi and/or foreign currencies which can be traded on the China Foreign Exchange Trade System & National Interbank Funding Centre to be remitted into and repatriated out of the PRC. The application of the rules may depend on the interpretation given by the relevant Chinese authorities. Any changes to the relevant rules may have an adverse impact on investors’ investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.

**Cash deposited with the QFI Custodian** – Investors should note that cash deposited in the cash account of the Sub-Fund with the QFI Custodian will not be segregated but will be a debt owing from the QFI Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash that belongs to other clients or creditors of the QFI Custodian. In the event of bankruptcy or liquidation of the QFI Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the QFI Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer.

**PRC brokerage risk** – The execution and settlement of transactions or the transfer of any funds or securities may be conducted by PRC Brokers. There is a risk that the Sub-Fund may suffer losses from the default, bankruptcy or disqualification of the PRC Brokers. In such event, the Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

In selection of PRC Brokers, the QFI will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards. If the QFI considers appropriate, it is possible that a single PRC Broker will be appointed and the Sub-Fund may not necessarily pay the lowest commission available in the market.

**Stock Connect  
associated risks**

The Sub-Fund may invest through Stock Connect and is subject to the following risks:

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

**Front-end monitoring risk** – PRC regulations require that in order for an investor to sell any China A-Share on a certain trading day, there must be sufficient China A-Shares in the investor’s account before market opens on that day. If there are insufficient China A-Share in the investor’s account, the sell order will be rejected by the SSE or the SZSE. The SEHK carries out pre-trade

checking on SSE Securities and SZSE Securities sell orders of its participants (i.e. stock brokers) to ensure that this requirement is satisfied. This means that investors must transfer SSE Securities and SZSE Securities to the accounts of its brokers before the market opens on the day of selling (the “trading day”). If an investor fails to meet this deadline, it will not be able to sell SSE Securities or SZSE Securities on the relevant trading day. Because of this requirement, investors may not be able to dispose of holdings of SSE Securities or SZSE Securities in a timely manner. This also raises concerns as to counterparty risks as securities may need to be kept by brokers overnight.

To facilitate investors whose SSE Securities or SZSE Securities are maintained with custodians to sell their SSE Securities or SZSE Securities without having to pre-deliver the SSE Securities or SZSE Securities from their custodians to their executing brokers, the SEHK introduced an enhanced pre-trade checking model in March 2015, under which an investor may request its custodian to open a Special Segregated Account (SPSA) in CCASS to maintain its holdings in SSE Securities and SZSE Securities. Such investors only need to transfer SSE Securities or SZSE Securities from its SPSA to its designated broker’s account after execution and not before placing the sell order. If the Sub-Fund is unable to utilise this model, it would have to deliver SSE Securities or SZSE Securities to brokers before the trading day and the above risks may still apply.

**Suspension risk** – It is contemplated that SEHK, SSE and SZSE would 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 through Stock Connect is effected, the Sub-Fund’s ability to access the Mainland China market will be adversely affected.

**Differences in trading day risk** – The Stock Connect only operates on days when both the Mainland China and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the Mainland China market but Hong Kong investors (such as the Sub-Fund) cannot carry out any China A-Shares trading. The Sub-Fund may be subject to a risk of price fluctuations in China A-Shares during the time when Stock Connect is not trading as a result.

**Operational risk** - The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the Mainland China stock market directly.

The Stock Connect is premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Although market participants have taken steps to configure and adapt their operational and technical systems to meet such requirements, given that the securities regimes and legal systems of the two markets differ significantly, market participants may need to address issues arising from the differences on an on-going basis.

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.

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

**Clearing and settlement risk** – The HKSCC and ChinaClear establish 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 ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC’s liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through the ChinaClear’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 ChinaClear.

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

**No Protection by China Securities Investor Protection Fund risk** – Investment through the Stock Connect is conducted through broker(s), and is subject to the risks of default by such brokers' in their obligations. Since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not brokers in Mainland China, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the PRC.

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

It should be noted that 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 or amended. The Sub-Fund, which may invest in the Mainland China markets through the Stock Connect, may be adversely affected as a result of such changes.

**Risks associated with the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board**

Investments in the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board may result in significant losses for the Sub-Fund and its investors. Such investments are subject to the following risks:

**Higher fluctuation on stock prices and liquidity risk** – Listed companies on the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board are usually innovative and growth enterprises of emerging nature with smaller operating scale. Listed companies on the Beijing Stock Exchange, the ChiNext Market and the STAR Board are subject to wider price fluctuation limits, and due to higher entry thresholds for investors may have limited liquidity, compared to other boards. Hence, companies listed on the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board are subject to higher fluctuation in stock prices and liquidity risks and have higher risks and turnover ratios than companies listed on the main boards of the SSE and the SZSE.

Due to different trading rules, daily price movements shall be limited to 30% on the Beijing Stock Exchange and 20% on the ChiNext Market and the STAR Board. Therefore the securities traded on these markets may be subject to a higher volatility risk than securities of relevant sectors traded in the other China A-share markets.

**Over-valuation risk** – Stocks listed on the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

**Differences in regulation applicable to the Beijing Stock Exchange, the ChiNext Market and the STAR Board** – The rules and regulations regarding companies listed on the Beijing Stock Exchange, the ChiNext Market and the STAR Board are less stringent in terms of profitability and share capital than those in the main boards of the SSE and the SZSE.

**Delisting risk** – It may be more common and faster for companies listed on the Beijing Stock Exchange, the ChiNext Market and/or the STAR Board to delist.

This may have an adverse impact on the Sub-Fund if the companies that it invests in are delisted.

**Risk associated with transfer of listing for stocks listed on Beijing Stock Exchange** – A company listed on the Beijing Stock Exchange in which the Sub-Fund invests may apply for transfer of listing to the ChiNext market of the SZSE or the STAR Board of the SSE, if permitted by the applicable laws and regulations, subject to meeting the listing requirements of the CSRC and the SSE or SZSE (as the case may be). The application for transfer of listing will be subject to the review and approval by SSE or SZSE (as the case may be). The application for transfer of listing, whether successful or not, may cause fluctuations in the price of the relevant stock, and hence the Net Asset Value of the Sub-Fund.

**Concentration risk applicable to the Beijing Stock Exchange and the STAR Board** – The Beijing Stock Exchange and the STAR Board are newly established and may have a limited number of listed companies during the initial stage. Investments in the Beijing Stock Exchange and the STAR Board may be concentrated in a small number of stocks and subject the Sub-Fund to higher concentration risk.

**Risk associated with regulatory policies of the equity market in Mainland China**

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

**Mainland China tax risk**

There are risks and uncertainties associated with the current Mainland China tax laws, regulations and practice in respect of the Sub-Fund's investment in Mainland China. It should also be noted that there is a possibility of Mainland China tax rules being changed and taxes being applied retrospectively. Any increased tax liabilities on the Sub-Fund may adversely affect the Sub-Fund's value.

Based on professional and independent tax advice, the Manager will make provisions from the Sub-Fund's assets for Mainland China withholding income tax ("WIT") at a rate of 10% in respect of the interests paid by Mainland China tax resident enterprises (except for government bonds) where such Mainland China WIT has not been withheld at source. Also, based on professional and independent tax advice, the Manager will not make provision for (i) any Mainland China WIT and value-added tax ("VAT") in respect of realised and unrealised capital gain derived from the trading of Mainland China securities; and (ii) any Mainland China VAT in respect of interest income derived from Mainland China securities.

In case of any shortfall between the provisions and actual tax liabilities, which will be debited from the Sub-Fund's assets, the Sub-Fund's Net Asset Value will be adversely affected. The actual tax liabilities may be lower than the tax provision made. Depending on the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

**Risks associated with performance fee charged**

Performance fees may encourage the Manager to make riskier investments than

**by the Sub-Fund**

would be the case in the absence of a performance-based incentive system.

Given there is no equalisation arrangement for the calculation of the performance fee, a redeeming investor may still incur a performance fee in respect of his investments, even though he has suffered a loss of investment capital.

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

### INVESTING IN THE FUND AND REDEMPTION OF UNITS

<b>Classes</b>	<b>Class A (USD) Units and Class A (USD) PF Units</b>	<b>Class A (HKD) Units and Class A (HKD) PF Units</b>	<b>Class A (RMB) Units and Class A (RMB) PF Units</b>
<b>Initial Offer Price</b>	USD1.00	HKD1.00	RMB1.00
<b>Minimum Initial Subscription Amount</b>	USD1,000	HKD10,000	RMB10,000
<b>Minimum Subsequent Subscription Amount</b>	USD1,000	HKD1,000	RMB1,000
<b>Minimum Redemption Amount</b>	USD100	HKD1,000	RMB1,000
<b>Minimum Holding Amount</b>	USD100	HKD1,000	RMB1,000
<b>Classes</b>	<b>Class I (USD) Units* and Class I (USD) PF Units*</b>	<b>Class I (HKD) Units* and Class I (HKD) PF Units*</b>	<b>Class I (RMB) Units* and Class I (RMB) PF Units*</b>
<b>Initial Offer Price</b>	USD1.00	HKD1.00	RMB1.00
<b>Minimum Initial Subscription Amount</b>	USD200,000	HKD1,000,000	RMB1,000,000
<b>Minimum Subsequent Subscription Amount</b>	USD20,000	HKD100,000	RMB100,000



<b>Minimum Redemption Amount</b>	USD20,000	HKD100,000	RMB100,000
<b>Minimum Holding Amount</b>	USD200,000	HKD1,000,000	RMB1,000,000

*\* Class I Units are offered to institutional investors only and are not available to the public in Hong Kong.*

## CONVERSION

Unitholders shall be entitled to convert all or part of their Units of a Class of the Sub-Fund into Units of another Class in the Sub-Fund or into Units of another Sub-Fund (if any) available for subscription or conversion. Units of a Class can only be converted into Units of the same Class of another Sub-Fund.

## DISTRIBUTION POLICY

### **Distribution Class(es)**

Class A (USD) Units, Class A (HKD) Units, Class A (RMB) Units, Class A (USD) PF Units, Class A (HKD) PF Units, Class A (RMB) PF Units, Class I (USD) Units, Class I (HKD) Units, Class I (RMB) Units, Class I (USD) PF Units, Class I (HKD) PF Units and Class I (RMB) PF Units are Distribution Classes. Net distributable income of the relevant Distribution Class will be distributed on a monthly basis, subject to the Manager's discretion. Distributions may, at the Manager's discretion, be paid out of the capital of the Sub-Fund. The Sub-Fund may also charge all or part of its fees and expenses to capital which means that the Sub-Fund may effectively pay distributions out of capital. Payment of distributions out of capital or effectively out of capital represents a return or a withdrawal of part of the amount the Unitholders originally invested or capital gain attributable to that amount. Any such distributions will result in an immediate decrease in the Net Asset Value of the Units.

Please refer to the section headed "***Distribution Policy***" and the risk factor headed "***Distributions risk***" in the main part of the Explanatory Memorandum for further details.

## FEES AND EXPENSES

### **Fees payable by investors:**

Class	Class A (USD) Units, Class A (HKD) Units, Class A (RMB) Units, Class A (USD) PF Units, Class A (HKD) PF Units and Class A (RMB) PF Units	
	Current	Maximum

<b>Subscription Charge</b>	Up to 5%	5%
(% of the total subscription amount)		

<b>Redemption Charge</b>	0%	2%
(% of the total redemption amount)		

The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit.

<b>Switching Fee</b>	0%	2%
(% of the total monetary amount being switched out)		

<b>Class</b>	<b>Class I (USD) Units, Class I (HKD) Units, Class I (RMB) Units, Class I (USD) PF Units, Class I (HKD) PF Units and Class I (RMB) PF Units</b>	
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<b>Current</b>	<b>Maximum</b>
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<b>Subscription Charge</b>	Up to 3%	3%
(% of the total subscription amount)		

<b>Redemption Charge</b>	0%	0%
(% of the total redemption amount)		

The Redemption Charge will be retained by or paid to the Manager for its own absolute use and benefit.

<b>Switching Fee</b>	0%	2%
(% of the total monetary amount being switched out)		

**Fees and expenses payable from assets of the Sub-Fund:**

	<b>Current</b>	<b>Maximum</b>
<b>Management Fee</b> (% of the Net Asset Value of the relevant Class per annum)	<b>Class A (USD) Units, Class A (HKD) Units and Class A (RMB) Units:</b>	3.0%
	1.5%	
	<b>Class A (USD) PF Units, Class A (HKD) PF Units and Class A (RMB) PF Units:</b>	3.0%
	1.3%	
	<b>Class I (USD) Units, Class I (HKD) Units and Class I (RMB) Units:</b>	3.0%
	1.0%	
	<b>Class I (USD) PF Units, Class I (HKD) PF Units and Class I (RMB) PF Units:</b>	3.0%
	0.8%	
<b>Trustee Fee</b> (% of the Net Asset Value of the relevant Class per annum)	up to 0.14%, subject to a minimum monthly fee of USD6,000 per Sub-Fund	0.14%, subject to a minimum monthly fee of USD6,000 per Sub-Fund
<b>Custody Fee</b> (% of the Net Asset Value of the Sub-Fund per annum)	Up to 0.0525%	0.0525%
<b>QFI Custodian Fee</b>	Included in the Custody Fee.	
<b>Performance Fee</b>	<b>Class A (USD) PF Units, Class A (HKD) PF Units, Class A (RMB) PF Units, Class I (USD) PF Units, Class I (HKD) PF Units and Class I (RMB)</b>	

**PF Units:** Please refer to the sub-section headed “*Performance fee*” under the section headed “**INVESTMENT CONSIDERATIONS**” in this Appendix for details.

**Class A (USD) Units, Class A (HKD) Units, Class A (RMB) Units, Class I (USD) Units, Class I (HKD) Units and Class I (RMB) Units:** Not applicable.

**Establishment Costs**

The establishment costs of the Sub-Fund are approximately USD60,000 and will be borne by the Sub-Fund. The establishment costs will be amortised over the Amortisation Period.

**General Expenses**

Please refer to the section headed “*General Expenses*” in the Explanatory Memorandum for further details.

**ADDITIONAL DOCUMENTS AVAILABLE FOR INSPECTION**

In addition to the documents listed in the Explanatory Memorandum under the heading “*Documents Available for Inspection*”, the following documents of the Sub-Fund are available for inspection during normal working hours at the offices of the Manager free of charge and copies thereof may be obtained from the Manager upon payment of a reasonable fee:-

- (i) the Participation Agreement among the Manager, the Trustee and the QFI Custodian.