

## **VL TRUSTS**

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

### **VL China Fund**

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## **EXPLANATORY MEMORANDUM**

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November 2023

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## **IMPORTANT INFORMATION FOR INVESTORS**

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

VL Trusts (the “Trust”) is an umbrella unit trust established under the laws of Hong Kong by the Trust Deed.

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

The Manager and its directors accept full responsibility for the information contained in this Explanatory Memorandum as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated. Investors should check the Manager’s website at [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC) for the latest version of this Explanatory Memorandum.

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

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

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

In particular:

- (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 U.S. Person (“U.S. Person” (as defined in Regulation S under such Act); and
- (b) the Trust and the Sub-Fund(s) have not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

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

Investors may raise any questions on or make any complaints about the Trust (including the Sub-Fund) by contacting the Manager at its address as set out in the Directory of this Explanatory Memorandum, or by phone at its telephone number: (852) 2851 8177.

## **DIRECTORY**

### **Manager**

VL Asset Management Limited  
以立投資管理有限公司  
Unit 1807, FWD Financial Centre  
308 Des Voeux Road Central  
Hong Kong

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### **Trustee**

Standard Chartered Trustee (Hong Kong) Limited  
14/F Standard Chartered Bank Building  
4-4A Des Voeux Road Central  
Hong Kong

### **Administrator and Registrar**

Standard Chartered Bank (Hong Kong) Limited  
32/F Standard Chartered Bank Building  
4-4A Des Voeux Road Central  
Hong Kong

### **Legal Counsel to the Manager**

Baker & McKenzie  
14/F One Taikoo Place  
979 King's Road  
Hong Kong

### **Auditors**

Ernst & Young  
22/F, CITIC Tower 1  
Tim Mei Avenue, Central  
Hong Kong

## **DEFINITIONS**

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

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|---|---|
| <b>“Appendix”</b>                       | means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.  |
| <b>“Base Currency”</b>                  | means, in relation to any Sub-Fund, unless otherwise specified in the relevant Appendix, the HKD.   |
| <b>“Business Day”</b>                   | means, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Trustee and the Manager may agree from time to time, provided that where, as a result of a number 8 typhoon signal, black rain storm warning or other similar event, the period during which banks in Hong Kong are open for normal banking business on any day is reduced, such day shall not be a Business Day unless the Trustee and the Manager determine otherwise.  |
| <b>“Code”</b>                           | means the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time.   |
| <b>“Connected Person”</b>               | <p>has the meaning as set out in the Code which at the date of this Explanatory Memorandum, in relation to a company means:</p> <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;</li><li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a);</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>“Dealing Day”</b>                    | means, in relation to any Sub-Fund, such day or days as may be specified in the relevant Appendix as being days on which Units may be issued or redeemed and/or such other day or days as the Manager may from time to time determine either generally or in respect of a particular class or classes of Units, provided that the Dealing Day for the issue of Units may be on a different day or days from the Dealing Day for the redemption of Units   |
| <b>“Dealing Deadline”</b>               | means 4:00 pm (Hong Kong time) on the relevant Dealing Day or any other Business Day.   |
| <b>“entities within the same group”</b> | means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.  |

<b>“FDI”</b>	means financial derivative instrument.
<b>“Government and other Public Securities”</b>	has the meaning as set out in the Code which, at the date of the main body of this Explanatory Memorandum, means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the People’s Republic of China.
<b>“Hong Kong dollars” or “HKD”</b>	means the lawful currency of Hong Kong.
<b>“Hong Kong Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited.
<b>“IFRS”</b>	means International Financial Reporting Standards issued by the International Accounting Standards Board.
<b>“Initial Offer Period”</b>	means, in respect of any class of Units, such period as may be specified by the Manager and notified to the Trustee for the purpose of making an initial offer of Units of such class, as specified in the relevant Appendix.
<b>“Manager”</b>	means VL Asset Management Limited 以立投資管理有限公司.
<b>“Net Asset Value”</b>	means, in relation to any Sub-Fund or class of Units, the net asset value of such Sub-Fund or class, as the context may require, calculated in accordance with the provisions of the Trust Deed.
<b>“PRC” or “China”</b>	means the People’s Republic of China, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan.
<b>“Redemption Price”</b>	means the price per Unit at which Units of the relevant class will be redeemed, which price shall be ascertained in accordance with the section headed “Redemption of Units” below.
<b>“reverse repurchase transactions”</b>	means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.
<b>“RMB” or “¥”</b>	means the lawful currency for the time being and from time to time of the PRC.
<b>“sale and repurchase transactions”</b>	means transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.
<b>“securities financing transactions”</b>	means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.



<b>"securities transactions"</b>	<b>lending</b>	means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.
<b>"SFC"</b>		means the Securities and Futures Commission of Hong Kong.
<b>"SFO"</b>		means the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong.
<b>"Sub-Fund"</b>		means a sub-fund of the Trust, being a separate trust which is established pursuant to a supplemental deed and is maintained in accordance with the provisions of the Trust Deed and such supplemental deed and with respect to which one or more separate classes of Units is issued.
<b>"Subscription Price"</b>		means the price per Unit at which Units of a particular class will be issued, which price shall be ascertained in accordance with the section headed "Subscription of Units" below.
<b>"Trust"</b>		means VL Trusts and includes the Sub-Funds.
<b>"Trust Deed"</b>		means the trust deed establishing the Trust dated 16 February 2015, and as amended, restated and/or supplemented from time to time.
<b>11.1 - 2 "Trustee"</b>		means Standard Chartered Trustee (Hong Kong) Limited or such other person or persons for the time being duly appointed trustee or trustees hereof in succession thereto.
<b>"Unit"</b>		means a unit of the class to which it relates and except where used in relation to a particular class of Unit, a reference to Units means and includes Units of all classes.
<b>"Unitholder"</b>		means a person registered as a holder of a Unit.
<b>"US dollars" or "USD"</b>		means the lawful currency of the United States of America.
<b>"Valuation Day"</b>		means, in relation to any class of Units, the Business Day as at which the Net Asset Value and the Net Asset Value per Unit is to be calculated as specified in the relevant Appendix and/or such other Business Day or Business Days as the Manager may from time to time determine.
<b>"Valuation Point"</b>		means, unless otherwise specified in the relevant Appendix, the close of business in the last relevant market to close on each Valuation Day or such other time consistent with standard market practice as the Manager may determine either generally or in relation to a particular class of Units.

## **INTRODUCTION**

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

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

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

Information relating to the Trust and the Sub-Funds, including the latest versions of the Sub-Funds' offering documentation, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC).

## **MANAGEMENT OF THE TRUST**

### **The Manager**

The Manager of the Trust is VL Asset Management Limited 以立投資管理有限公司.

The Manager was incorporated with limited liability in Hong Kong on 22 January 2009. It is licensed by the SFC for type 9 (asset management) regulated activity under the SFO with CE number ASM213.

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

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

The directors of the Manager are as follows:

- ***WONG Koon Man, Adrian***

Mr. Wong was admitted as a solicitor in England and Wales in 1988 and in Hong Kong in 1989. He worked for commercial law firms in England and in Hong Kong and has long experience in listing and mergers and acquisitions. He is a director of Abercan Limited, a property investment company in Hong Kong, an independent director of Airport Authority Hong Kong and an independent non-executive director of MTR Corporation Limited. He was a member of the Listing Committee of the Hong Kong Stock Exchange from 2006 to 2012 and has served on the Board of Review (Inland Revenue Ordinance) from 2001 to 2010.

- ***LAM Siu Yeung, Vincent***

Mr. Lam has been in the investment research and portfolio management profession in the Asia Pacific region since 1999. Prior to setting up VL Asset Management Limited, Mr. Lam was Managing Director of Ramius Asia Limited and Chief Investment Officer of Quam Asset Management Limited. He has also worked as a financial journalist in Hong Kong for approximately three years after graduating with a Bachelor's degree in Social Sciences (Economics) from the Chinese University of Hong Kong. He also holds an executive Master of Business Administration ("**EMBA**") degree from Richard Ivey School of Business, University of Western Ontario in Canada.

- ***TO Tsz Wai, Bernard***

Mr. To has been focusing on portfolio management as well as product development and marketing since 2000. Prior to joining VL Asset Management Limited, Mr. To was Chief Investment Officer of Global Development Limited from August 2013 to April 2019 as well as Managing Director of Ginger Capital Investment Advisory Limited and Ginger Capital Advisory Limited from August 2010 to June 2013. He holds a degree in International Economics and Business Administration from the International Christian

University, Japan. He obtained his CFA Level 3 qualification in 2003.

## The Trustee

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The Trustee of the Trust is Standard Chartered Trustee (Hong Kong) Limited, which is a registered trust company incorporated in Hong Kong. The Trustee is a subsidiary of Standard Chartered Bank (Hong Kong) Limited, a company incorporated in Hong Kong and a bank licensed under the Banking Ordinance (Cap.155 of the Laws of Hong Kong).

Under the Trust Deed, the Trustee shall take into its custody or under its control all the property forming part of the assets of the Trust and hold it 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 applicable laws and regulation, all registrable assets and cash from time to time comprised in the Trust shall be registered in the name of or held to the order of the Trustee. The Trustee is responsible and shall remain at all times liable for the safe-keeping of the investments, assets and other property forming part of the Trust in accordance with the provisions of the Trust Deed and such investments, assets and other property shall be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereof, subject to the provisions of the Trust Deed. The Trustee shall in respect of any investments, assets and other property of a Sub-Fund which by nature cannot be held in custody, maintain a proper record of such investments, assets or property in its books under the name of that Sub-Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee, agent or delegate, all or any of the investments, assets or other property comprised in any Sub-Fund and may empower any such custodian, nominee, agent or delegate to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians and/or delegates (each such custodian, nominee, agent, co-custodian, sub-custodian and delegate a “Correspondent”). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents and (b) be satisfied that Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the Trust. The Trustee shall be liable for the acts and omissions of any Correspondent which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

As at the date of the Explanatory Memorandum, the Trustee has appointed Standard Chartered Bank (Hong Kong) Limited as its delegate (“SCB HK”) to perform custodial, fund administration and registrar functions in respect of the Trust and the Sub-Funds.

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

Subject as provided in the Trust Deed, the Trustee and its respective officers, employees, agents and delegates are entitled to be indemnified out of the assets of the relevant Sub-Fund in respect of all liabilities and expenses incurred in relation to such Sub-Fund and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to such Sub-Fund, except to the extent that such liability, expense, action, proceeding, cost, claim or demand arises out of the fraud, negligence or wilful default of the Trustee or its officers, employees, agents or delegates.

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

The Trustee is entitled to the fees set under the section headed “Expenses and Charges” below and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or each Sub-Fund. The Trustee shall take reasonable care to ensure that the investment and borrowing limitations set out in the Trust Deed and any specific investment and borrowing limitations as set out in the relevant Appendix are complied with. Save for the above, the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Explanatory Memorandum and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or any Sub-Fund, and they are not responsible for the preparation or issue of this Explanatory Memorandum other than the description in this section “Trustee” above.

### **The Administrator and Registrar**

Standard Chartered Bank (Hong Kong) Limited has been appointed to act as the Administrator of each Sub-Fund. It is a bank incorporated and domiciled in Hong Kong and its principal activities are the provision of banking and related financial services. The Administrator is responsible for, inter alia, the general administration of each Sub-Fund, which includes the proper book-keeping of each Sub-Fund and calculating the Net Asset Value.

The Administrator also acts as the Registrar of the Trust and the Sub-Funds, in which capacity it will be responsible for providing transfer agency services to the Trust and the Sub-Funds, including but not limited to, processing applications for the subscription, switching and redemption of the Units and maintaining the register of Unitholders.

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

### **Investment objective**

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

### **Investment strategy**

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

### **Investment restrictions**

Unless otherwise approved by the SFC, the following principal investment restrictions apply to each Sub-Fund under the Trust authorised by the SFC:

- (a) the aggregate value of a Sub-Fund's investments in, or exposure to, any single entity (other than Government and other Public Securities) through the following may not exceed 10% of the total Net Asset Value of such Sub-Fund save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of a Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the total Net Asset Value of the Sub-Fund:
  - (1) investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;

for the avoidance of doubt, the restrictions and limitations on counterparty as set out in paragraphs (a) and (b) and Chapter 7.28(c) of the Code will not apply to FDIs that are: (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis;

- (c) unless otherwise approved by the SFC, the value of a Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the total Net Asset Value of the Sub-Fund, unless:
  - (1) the cash is held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of a Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or

- (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

For the purposes of this paragraph, "cash deposits" generally refer to those that are repayable on demand or have the right to be withdrawn by a Sub-Fund and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity (other than Government and other Public Securities) held for the account of a Sub-Fund, when aggregated with other holdings of ordinary shares issued by a single entity held for the account of all other Sub-Funds under the Trust collectively, may not exceed 10% of the nominal amount of the ordinary shares issued by a single entity;
- (e) not more than 15% of the total Net Asset Value of a Sub-Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (f) notwithstanding (a), (b), (d) and (e) above, where direct investment by a Sub-Fund in a market is not in the best interests of investors, a Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Sub-Fund, must in aggregate comply with the requirements of Chapter 7 of the Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the Sub-Fund as a result must be clearly disclosed in the Explanatory Memorandum; and
  - (3) the Sub-Fund must produce the reports required by Chapter 5.10(b) of the Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Sub-Fund.
- (g) notwithstanding paragraphs (a), (b) and (d), not more than 30% of the total Net Asset Value of a Sub-Fund may be invested in Government and other Public Securities of the same issue;
- (h) subject to paragraph (g), a Sub-Fund may fully invest in Government and other Public Securities in at least six different issues and subject to the approval of the SFC, a Sub-Fund which has been authorised by the SFC as an index fund may invest all of its assets in Government and other Public Securities in any number of different issues; 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;
- (i) 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, a Sub-Fund may not invest in physical commodities;
- (j) unless otherwise provided under the Code, the spread requirements under paragraphs (a), (b), (d) and (e) do not apply to investments in other collective investment schemes by a Sub-Fund and for the avoidance of doubt, exchange traded funds that are:

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

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in paragraph (j) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and the relevant investment limits in exchange traded funds by a Sub-Fund should be consistently applied and clearly disclosed in the Explanatory Memorandum of a Sub-Fund; unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, investment by a Sub-Fund in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

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

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

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, a Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total net asset value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);
- (ii) where the underlying schemes are managed by the Manager or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;



- (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
  - (3) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and
  - (4) 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 the management company of an underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;
- (l) a Sub-Fund may invest 90% or more of its total Net Assets Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case:
  - (1) the underlying scheme ("master fund") must be authorised by the SFC;
  - (2) the Explanatory Memorandum must state that:
    - the Sub-Fund is a feeder fund into the master fund;
    - for the purpose of complying with the investment restrictions, the Sub-Fund and its master fund will be deemed a single entity;
    - the Sub-Fund's annual financial report must include the investment portfolio of the master fund as at the financial year end date; and
    - the aggregate amount of all the fees and charges of the Sub-Fund and its underlying master fund must be clearly disclosed;
  - (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, management company's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders or by the Sub-Fund may result, if the master fund in which the Sub-Fund invests is managed by the Manager or by its Connected Person; and
  - (4) notwithstanding paragraph (k)(iii) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (k); and
- (m) if the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

A Sub-Fund shall not:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager collectively own more than 5% of those securities;
- (B) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)); in the case of investments in such shares and REITs, a Sub-Fund shall comply with the requirements under paragraphs (a), (b), (d), (e) and (k)(1) above,

where applicable. Where investments are made in listed REITs, the requirements under paragraphs (a), (b) and (d) above apply, and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under paragraphs (e) and (k)(1) above apply respectively.

- (C) make short sales if as a result a Sub-Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, a Sub-Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;
- (D) lend or make a loan out of the assets of a Sub-Fund except to the extent, in either case, that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (E) subject to paragraph (e) above, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (F) enter into any obligation in respect of a Sub-Fund or acquire any asset or engage in any transaction for the account of a Sub-Fund which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the relevant Sub-Fund; or
- (G) apply any part of a Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of a Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

### **Borrowing restrictions**

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

For the avoidance of doubt, securities financing transactions in compliance with the requirements set out in the section headed "Securities financing transactions" below are not subject to the limitations in this section.

### **Financial derivative instruments**

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

#### Hedging purposes

A Sub-Fund may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purposes if they meet all of the following criteria:

- (a) they are not aimed at generating any investment return;

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

#### Non-hedging (investment) purposes

A Sub-Fund may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the Sub-Fund's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50% of its total Net Asset Value, except this limit may be exceeded for Sub-Funds approved by the SFC under Chapters 8.8 (structured funds) or 8.9 (funds that invest extensively in financial derivative instruments) of the Code. In this regard:

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

#### Restrictions applicable to FDIs

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

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies;
- (b) where a Sub-Fund invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions set out in paragraphs (a), (b), (c) and (f) of the section headed "Investment restrictions" above provided that the index is in compliance with the relevant requirements under Chapter 8.6(e) of the Code;
- (c) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (d) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of such Sub-Fund, provided that the exposure of a Sub-Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with

reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and

- (e) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Sub-Fund. Further, the administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

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

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

Subject to the above, a Sub-Fund may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the relevant Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in the paragraphs (a), (b), (c), (g), (h), (k) and (B) under the section entitled “Investment restrictions” above.

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

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

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

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

## **Securities financing transactions**

The Trustee may, at the request of the Manager, enter into securities financing transactions in respect of a Sub-Fund, provided that (i) they are in the best interests of Unitholders, (ii) the associated risks have been properly mitigated and addressed and (iii) the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

Please refer to the “Investment Strategy” section in each relevant Appendix for the policy regarding such arrangements of each Sub-Fund.

A Sub-Fund which engages in securities financing transactions is subject to the following requirements:

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

There is no current intention for any Sub-Fund to engage in securities financing transactions, but this may change in light of market circumstances and where a Sub-Fund does engage in these types of transactions, prior approval shall be obtained from the SFC (if required) and no less than one month's prior notice will be given to the Unitholders.

## **Collateral**

Where specified in the relevant Appendix, a Sub-Fund may receive collateral from a counterparty to over-the-counter FDI transactions and securities financing transactions, and the Manager will set out its policy regarding collateral in the relevant Appendix.

A Sub-Fund may receive collateral from each counterparty provided that the collateral complies with the requirements set out below:

- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets 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. For the avoidance of doubt the price volatility of the asset used as collateral should be taken into account when devising the haircut policy;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Sub-Fund's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment

restrictions and limitations set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the Code;

- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions to the extent that it would undermine the effectiveness of the collateral. Securities issued by the counterparty or the issuer of the FDIs, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee of the relevant Sub-Fund;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee of the Sub-Fund without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment – cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

For the purpose herein, “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. Any re-investment of cash collateral shall be subject to the following further restrictions and limitations:

- (i) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Clauses 18.3(B) and 18.3(I);
  - (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (iii) 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.
- Encumbrances – collateral should be free of prior encumbrances; and
  - Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

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

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

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

## **SUBSCRIPTION OF UNITS**

### **Initial issue of Units**

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

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

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

Units will be issued on the Business Day following the close of the Initial Offer Period or such other Business Day as the Manager may determine. Dealing of the Units will commence on the Dealing Day immediately following the closure of the relevant Initial Offer Period. The Manager shall not invest any proceeds from the subscription of Units until the close of the Initial Offer Period and the issue of Units subscribed thereunder.

### **Subsequent issue of Units**

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

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

### **Non-cash subscriptions**

Units in a Sub-Fund may also be issued for non-cash consideration, at the discretion of the Manager during the Initial Offer Period. The number of Units to be issued shall be that number which would have been issued at the initial Subscription Price per Unit against payment of a sum equal to the value of the non-cash consideration transferred plus such sum as the Manager may consider represents an appropriate provision for fiscal and purchase charges which would be incurred in the purchase of the non-cash consideration but less such sum as the Manager may consider represents any costs, fees and expenses to be paid out of the relevant Sub-Fund in connection with the vesting of the non-cash consideration. The relevant non-cash consideration shall be valued in accordance with the provisions of the Trust Deed.

The Manager does not intend to exercise this discretion in respect of any Sub-Fund unless otherwise specified in the relevant Appendix.



## **Subscription monies or non-cash subscriptions**

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

In determining the Subscription Price, the Manager is entitled to add (up to 2% of the subscription amount) an amount it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are customarily incurred in investing a sum equal to the application monies or associated with any non-cash consideration received by the relevant Sub-Fund (as the case may be) and issuing the relevant Units or the remittance of money to the Trustee. Any such additional amount will be paid to the Trustee and will form part of the assets of the relevant Sub-Fund.

## **Application procedure**

To subscribe for Units, an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Registrar.

Applications for Units during the relevant Initial Offer Period, together with cleared funds, must be received by the Registrar in respect of the relevant Sub-Fund no later than 4:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. In the case of non-cash subscriptions (which may be accepted at the Manager's discretion), applications for Units during the relevant Initial Offer Period, along with the duly completed transfer documentation, must be received by the Registrar in respect of the relevant Sub-Fund no later than 4:00 pm (Hong Kong time) 3 Business Days prior to the close of the Initial Offer Period. Any transfer documentation relating to a non-cash subscription is sent or delivered at the applicant's own risk.

After the Initial Offer Period, applications must be received by the Registrar by the relevant Dealing Deadline.

Unless otherwise agreed by the Manager and the Trustee, application forms that are faxed to the Registrar must always be followed by their original. Applicants who choose to send an application form by fax bear the risk of the form not being received by the Registrar. Applicants should therefore, for their own benefit, confirm with the Registrar safe receipt of an application form. Neither the Manager, the Trustee nor the Registrar (nor any of their respective officers, employees, agents or delegates) will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

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

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

Where an applicant applies for Units through a distributor, the Manager and the Trustee will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as Unitholder of the relevant Units. The Manager and the Trustee will treat the distributor (or its

nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and redemption of Units and any related matters, as well as any costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

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

The Manager may, at its discretion, reject in whole or in part any application for Units. In the event that an application is rejected, subscription monies paid by an applicant or, in the case of non-cash subscriptions, the relevant transfer documentation submitted by an applicant, will be returned by telegraphic transfer or by post (as the case may be) or such other means as the Manager and the Trustee consider appropriate at the applicant's risk (without interest and net of expenses).

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

### **Payment procedure**

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

Subscription monies paid by any person other than the applicant will not be accepted.

Unless the Manager otherwise determines and notifies to the Trustee, payment for Units shall be due in cleared funds in the Base Currency of the Sub-Fund within 3 Business Days following the relevant Dealing Day on which an application was received by the Dealing Deadline. If payment in cleared funds is not received prior to such time as aforesaid, the application may, at the discretion of the Manager, be considered void and cancelled. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim against the Manager or the Registrar and any loss will be borne by the applicant, 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 may require the applicant to pay to the Registrar, for the account of the relevant Sub-Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Day exceeds the applicable Redemption Price on the date of cancellation and; (iii) the Registrar shall be entitled to charge the applicant a cancellation fee for the administrative costs involved in processing the application and subsequent cancellation.

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

In the case of non-cash subscriptions (which may be accepted at the Manager's discretion), Units will not be issued unless and until the original signed application form has been received, and the duly completed transfer documentation required to effect the transfer to the Registrar have been received by or on behalf of the Sub-Fund and such transfer has in fact been effected, in which case the relevant Units will be issued at the Subscription Price.

### **General**

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders in respect of each Sub-Fund. Unitholders should

therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details. Fractions of a Unit may be issued rounded down to the nearest 4 decimal places. Subscription monies or non-cash subscriptions representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption procedure**

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

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

A redemption request must be given to the Registrar in writing or by fax (with its original following promptly) and must specify the name of the Sub-Fund, the class (if applicable) and the value or number of Units to be redeemed, the name(s) of the registered Unitholder(s) and give payment instructions for the redemption proceeds.

Unless otherwise agreed by the Manager and the Trustee, the original of any redemption request given by fax should be forwarded to the Registrar. A Unitholder who chooses to send an application form by fax bears the risk of the form not being received by the Registrar. Unitholders should therefore, for their own benefit, confirm with the Registrar safe receipt of a redemption request. Neither the Manager, the Trustee nor the Registrar (nor any of their respective officers, employees, agents or delegates) will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or for any loss caused in respect of any action taken as a consequence of such fax believed in good faith to have originated from properly authorised persons.

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

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

### **Payment of redemption proceeds**

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

In determining the Redemption Price, the Manager is entitled to deduct an amount (up to 2% of the redemption amount) which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are customarily incurred by the relevant Sub-Fund. Any such deducted amount will be retained by and form part of the assets of the relevant Sub-Fund.

The Manager may at its option impose a redemption fee in respect of the Units to be redeemed as described in the section headed “Expenses and Charges” below. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the redemption fee to be imposed (within the permitted limit provided in the Trust Deed) on each Unitholder.

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

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

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

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made.

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

### **Restrictions on redemption**

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the number of Units of a Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10%, or such higher percentage as the Manager may determine (and as permitted by the SFC) either generally or in respect of any particular Dealing Day, of the total Net Asset Value or the total number of Units of the relevant Sub-Fund in issue on such Dealing Day. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund wishing to redeem Units of that Sub-Fund on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next Dealing Day based on the Redemption Price as at that

Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent redemption requests received in respect of such subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will promptly inform the Unitholders concerned.

The Manager may suspend the redemption of Units of any Sub-Fund, or delay the payment of redemption proceeds in respect of any redemption request received, during any period in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details please see the section headed "Suspension of determination of Net Asset Value").

### **Compulsory redemption**

If it shall come to the notice of the Manager that any Units are owned directly, indirectly or beneficially (i) by a U.S. Person (unless such ownership is acceptable to the Manager); (ii) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager or the relevant Sub-Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager or the relevant Sub-Fund to any additional regulation to which the Manager or the relevant Sub-Fund might not otherwise have incurred or suffered or been subject; or (iii) in breach of any applicable law or applicable requirements of any country or governmental authority the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the redemption of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such Units as aforesaid or establish to the satisfaction of the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the redemption of all such Units. Any such compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

## **SWITCHING**

The Manager may from time to time permit Unitholders to switch some or all of their Units of any Sub-Fund (the “Existing Sub-Fund”) into Units of any other Sub-Fund which has been authorised by the SFC (the “New Sub-Fund”). Unitholders may request such switching by giving notice in writing or by fax to the Registrar. Neither the Manager, the Trustee nor the Registrar (nor any of their respective officers, employees, agents or delegates) shall be responsible to any Unitholder for any loss resulting from the non-receipt or illegibility of a request for switching transmitted by facsimile, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Unitholder. A request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding specified for the New Sub-Fund (if any) and/or the Existing Sub-Fund.

Under the Trust Deed, the Manager is entitled to impose a switching fee on the switching of Units of up to 5% of the Redemption Price of the Units of the Existing Sub-Fund being switched. The switching fee will be deducted from the amount reinvested in the New Sub-Fund and will be paid to the Manager.

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

- (a) redemption of the Units of the Existing Sub-Fund will be dealt with by reference to the Redemption Price on that Dealing Day (the “Switching Redemption Day”);
- (b) where the Existing Sub-Fund and the New Sub-Fund have different currencies of denomination, the redemption proceeds of Units of the Existing Sub-Fund, after deduction of any switching fee, shall be converted into the currency of denomination of the New Sub-Fund; and
- (c) the resulting amount will be used to subscribe for Units of the New Sub-Fund at the relevant Subscription Price on the Dealing Day on which the Trustee receives cleared funds in the relevant currency by the Dealing Deadline of the New Sub-Fund (the “Switching Subscription Day”).

Subject to the time required to remit redemption proceeds in respect of the Units of the Existing Sub-Fund, the Switching Subscription Day may be later than the Switching Redemption Day.

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

## **VALUATION**

### **Valuation rules**

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

Where a Sub-Fund has more than one class of Units, to ascertain the Net Asset Value of a class of Units, a separate class account will be established in the books of the Sub-Fund. An amount equal to the proceeds of issue of each Unit will be credited to the relevant class account. The Net Asset Value of each class of Units as at any Valuation Point shall be calculated by:

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

The value of the assets of a Sub-Fund will be determined by the Manager, in consultation with the Trustee, as at each Valuation Point in accordance with the Trust Deed. The Trust Deed provides (inter alia) that:

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the last traded price or “exchange close” price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Manager on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a person, firm or institution



making a market in such investments or otherwise approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);

- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (d) the value of any commodity or futures contract shall be ascertained in accordance with the following:
  - (i) if a commodity or futures contract is dealt in any recognised commodities market, then the latest ascertainable price ruling or officially fixed on such recognised commodities market shall be taken into account or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager, in consultation with the Trustee, shall consider appropriate;
  - (ii) if any such price as referred to in (i) is not, in the opinion of the Manager (after consulting the Trustee), reasonably up to date or ascertainable at any relevant time, then any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract shall be taken into account;
  - (iii) the value of any futures contract (the "relevant Contract"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Manager in consultation with the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Manager in consultation with the Trustee (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
  - (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity or futures contract, then the value shall be determined in accordance with (b) above as if such commodity or futures contract were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Trustee so determines, if such collective investment scheme is not valued as at the same day as the Sub-Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, or (if the same is not available) the last published bid price for such a unit, share or other interest, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Trustee;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, in consultation with the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability and

other considerations the Manager deems relevant, the Manager considers that such adjustment is required to reflect the fair value of the investment; and

- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the Base Currency of the Sub-Fund or the currency of denomination of the relevant class will be converted into the Base Currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

If no Net Asset Value, bid or ask prices or price quotation are available for an asset held by the Sub-Fund, the value of the relevant asset shall be determined from time to time in such manner as the Manager in consultation with the Trustee shall determine provided that any asset of the Sub-Fund which is not listed, quoted or dealt in on any securities exchange or over the counter market shall be valued at the lower of cost and the Manager's estimation of the realizable value of such asset.

For the purposes of ascertaining quoted, listed, traded or market dealing prices, the Sub-Fund, the Trustee, the Manager, the Administrator or their agents are entitled to use and rely upon mechanized or electronic systems of pricing dissemination with regard to the pricing of assets held by the Sub-Fund and the prices provided by any such system will be deemed to be an accurate price for that asset.

Notwithstanding the foregoing, the Manager in consultation with the Trustee may, at their absolute discretion, permit such other method of pricing or valuation which, in their opinion, better reflects fair value and direct the Administrator to apply this to the calculation of the Net Asset Value of the Sub-Fund.

### **Suspension of calculation of Net Asset Value**

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

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

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

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

If the Manager declares a suspension, the Manager shall, immediately after any such declaration notify the SFC of such suspension and procure the notice of the suspension be published immediately following the decision to suspend and at least once a month during the period of suspension on the Manager's website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC).

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

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of each Sub-Fund are available on the Manager's website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC).

## **EXPENSES AND CHARGES**

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

### **Fees payable by Unitholders**

The following fees and charges are payable by Unitholders:

#### **Subscription Fee**

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

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

#### **Redemption fee**

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

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

#### **Switching fee**

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

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

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

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

#### **Management fee**

The Trust Deed provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 2% per annum of the Net Asset Value of the relevant Sub-Fund. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

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

#### **Performance fee**

The Trust Deed provides that the Manager is entitled to charge a performance fee in respect of any class of Units.

Performance fee will be calculated on a high-on-high basis. Performance fee will be accrued on each Valuation Day throughout the relevant performance period and the performance fee shall become payable if the Net Asset Value per Unit of the relevant class of Units (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of that performance period) as at the last Valuation Day of the relevant financial year (the "Performance Fee Valuation Day") exceeds the High Water Mark (as defined below), except where Units are redeemed or switched part way through a performance period, in which case any accrued performance fee will become payable in the manner described in further detail below.

The "High Water Mark" means the higher of (a) the initial Subscription Price of the relevant class; and (b) the Net Asset Value per Unit of the relevant class as at the Performance Fee Valuation Day of the preceding performance period in respect of which a performance fee was last paid to the Manager (after deduction of all fees including any performance fee and any distribution declared or paid in respect of that preceding performance period). The High Water Mark for a particular class remains the same throughout the relevant performance period, irrespective of the time of subscription, or the Subscription Price paid, by a particular Unitholder.

The Manager may, in its absolute discretion, share with, waive, reduce or rebate the payment of all or any portion of the subscription fee, redemption fee, management fee and/or performance fee received by the Manager to any person including intermediaries introducing investors.

#### Performance fee calculation

The rate of performance fee payable in respect of any class of Units is set out in the relevant Appendix. The amount of performance fee payable is calculated by multiplying this fee rate by the product of such excess of the Net Asset Value per Unit over and above the High Water Mark and the average of the number of Units of the relevant class of Units in issue in the relevant performance period, as shown in the formula below:

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

where:

"A" is the Net Asset Value per Unit of the relevant class of Units (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of that performance period) as at the Performance Fee Valuation Day.

"B" is the High Water Mark (as defined above).

"C" is the rate of performance fee payable in respect of any class of Units, as set out in the relevant Appendix.

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

The first performance period shall be the period from the first Business Day following the close of the relevant Initial Offer Period to (a) the Performance Fee Valuation Day in the same year, if the first performance period would therefore be 6 calendar months or longer; failing which (b) the Performance Fee Valuation Day in the following year. Thereafter, the relevant performance period shall be the period commencing on the date immediately following each Performance Fee Valuation Day and ending on the next following Performance Fee Valuation Day.

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

#### Performance fee accrual

The performance fee shall be accrued on each Valuation Day throughout the relevant performance period. The accrual is made based on the Net Asset Value per Unit of the relevant class on each Valuation Day and solely for the purposes of calculation of such accrual, each Valuation Day will be a Performance Fee Valuation Day. If the Net Asset Value per Unit of the relevant class exceeds the High Water Mark, a performance fee accrual will be made. If not, no performance fee accrual will be made. On each Valuation Day, the accrual made on the previous Valuation Day will be reversed and a new performance fee accrual will be calculated and made in accordance with the above. As such, the performance fee accrual will be adjusted upwards if the Net Asset Value per Unit increases, and will be adjusted downward if the Net Asset Value per Unit decreases. If the Net Asset Value per Unit on a Valuation Day is lower than the High Water Mark, all provision previously accrued will be reversed for the benefit of the relevant Sub-Fund.

If any Units are redeemed or switched into the units of other SFC authorised unit trusts or mutual funds managed by the Manager and/or its fellow subsidiaries on a Dealing Day part way through a performance period, the performance fee accrued in respect of those Units as at the Valuation Day relating to such redemption or switching shall be crystallised, set aside and payable to the Manager as soon as practicable after the end of the relevant performance period, irrespective of whether the Net Asset Value per Unit of the relevant Class exceeds the High Water Mark on the Performance Fee Valuation Day of the relevant performance period.

The price of Units subscribed for or redeemed during the relevant performance period will be based on the Net Asset Value per Unit (after accrual of performance fee as calculated in accordance with the above). Depending upon the performance of the relevant Sub-Fund during the year, the price at which Unitholders subscribe for or redeem Units at different times will be affected by performance of such Sub-Fund and this could have a positive or negative effect on the performance fee borne by them.

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

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

#### Performance fee examples

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

Assumptions:

- The initial Subscription Price for the relevant class of Units is HKD100.
- The performance fee payable is 15% of the appreciation in the Net Asset Value per Unit during a performance period above the High Water Mark.

*First performance period (NAV above High Water Mark at end of performance period – performance fee payable by investors regardless of the Subscription Price invested):*

- Investor A subscribes for one Unit during the Initial Offer Period at the initial Subscription Price.
- Investor B subscribes for one Unit during the first half of the first performance period, when the Sub-Fund is performing relatively well, at a Subscription Price of HKD120.
- High Water Mark is the initial Subscription Price, which is HKD100.

By the end of the first performance period, the Net Asset Value per Unit is HKD110. The appreciation in the Net Asset Value per Unit over the High Water Mark is thus HKD10.

The average number of Units of the relevant class of Units in issue on this Performance Fee Valuation Day is 2 Units.

The total performance fee payable by the relevant class would be calculated as:

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

At the end of the first performance period, the Net Asset Value per Unit will be reduced by HKD1.50. In effect, each of Investors A and B will have borne the HKD1.50 performance fee in respect of the first performance period, regardless of the Subscription Price at which they invested.

*Second performance period (NAV below High Water Mark on a particular Valuation Day – no performance fee accrual; NAV below High Water Mark at end of performance period – no performance fee payable):*

- At the start of the second performance period, the High Water Mark is HKD108.5 (being the Net Asset Value per Unit at the end of the last performance period in respect of which performance fee was payable (after deduction of performance fee)).
- Mid-way through the second performance period, the Sub-Fund is performing relatively poorly with the NAV per Unit being HKD98.5. Investor A redeems his Unit. Investor C subscribes for one Unit.

On this Valuation Day, the Net Asset Value per Unit is below the High Water Mark. Therefore, no performance fee is accrued in respect of the Unit redeemed by Investor A.

At the end of the second performance period, the Net Asset Value per Unit becomes HKD105. There has been no appreciation in the Net Asset Value per Unit over the High Water Mark. No performance fee is therefore payable in the second performance period.

*Third performance period (Crystallisation of performance fee; no equalisation in the calculation of performance fee):*

- At the start of the third performance period, the High Water Mark is still HKD108.5 (being the Net Asset Value per Unit at the end of the last performance period in respect of which performance fee was payable (after deduction of performance fee)).
- Mid-way through the third performance period, the performance of the Sub-Fund recovers with the NAV per Unit being HKD116.5. Investor B redeems his Unit.

On this Valuation Day, the appreciation in the Net Asset Value per Unit over the High Water Mark is thus \$8.

The average number of Units of the relevant class of Units in issue (before taking into account the redemptions) on this Valuation Day is 2 Units.

The performance fee accrual for the relevant class on this Valuation Day would be calculated as:

$$(\text{HKD}116.5 - \text{HKD}108.5) \times 15\% \times 2 \text{ Units} = \text{HKD}2.40.$$

In respect of the Unit redeemed by Investor B, the Net Asset Value per Unit will be reduced by HKD1.20. On redemption, Investor B will have borne the performance fee of HKD1.20 in respect of the third performance period (up to the day of redemption), regardless of the Subscription Price at which he invested. This amount of HKD1.20 will be crystallised and payable to the Manager as soon as practicable after the end of the third performance period.

- *Scenario 1:* At the end of the third performance period, if the Net Asset Value per Unit increases to HKD120, then the performance fee payable by Investor C will be calculated as:

$$(\text{HKD}120 - \text{HKD} 108.5) \times 15\% \times 1 \text{ Unit} = \text{HKD}1.725.$$

- *Scenario 2:* At the end of the third performance period, if the Sub-Fund behaves poorly such that the Net Asset Value per Unit drops to HKD105, then no performance fee will be payable as the Net Asset Value per Unit is below the High Water Mark. The previously accrued performance fee will be reversed. Nonetheless, the amount of performance fee of HKD1.20 from Investor B's redemption will still be payable to the Manager.

As can be seen in this example, crystallisation does not affect the level of the High Water Mark. The High Water Mark will always be based on the Net Asset Value per Unit at the end of the last performance period in respect of which performance fee was payable (after deduction of performance fee), and is not reset when crystallisation occurs upon redemption.

#### Trustee fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of each Sub-Fund, the maximum amount of which is equal to 2% per annum of the Net Asset Value of the Sub-Fund. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears. This fee covers the fees of the Administrator, the Registrar and any custodian which the Trustee appoints.

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

#### Other charges and expenses

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

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



## **Increase in fees**

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

## **Establishment costs**

The costs of establishing the Trust and the first Sub-Fund (i.e. the VL China Fund) are estimated to be approximately HKD900,000. These costs will be charged to the first Sub-Fund and amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund).

Where subsequent Sub-Funds under the Trust are established in the future, the Manager may determine that the unamortised establishment costs of the Trust or a part thereof may be re-allocated to such subsequent Sub-Funds.

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

## **Cash rebates and soft commissions**

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

The Manager and/or any of its Connected Persons further reserve the right to effect transactions by or through the agency of another person with whom the Manager and/or any of its Connected Persons has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision are of demonstrable benefit to the Unitholders and the Trust (or the relevant Sub-Fund) as a whole and may contribute to an improvement in the performance of the Trust (or the relevant Sub-Fund) or of the Manager and/or any of its Connected Persons in providing services to the Trust (or the relevant Sub-Fund) and for which no direct payment is made but instead the Manager and/or any of its Connected Persons undertakes to place business with that party. Any transactions executed through such party must be consistent with best execution standards and brokerage rates must not be in excess of customary institutional full-service brokerage rates, and the availability of such goods, services or other benefits shall not be the sole or primary purpose to perform or arrange such transactions. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Periodic disclosure in the form of a statement describing the Manager's soft dollar policies and practices, including a description of the goods and services received by the Manager, will be made in the relevant Sub-Fund's annual financial report.

## **RISK FACTORS**

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

### **General risks**

#### **Investment risk**

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

#### **Market risk**

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

#### **Concentration risk**

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

#### **Emerging market risk**

Certain Sub-Funds may invest in emerging markets (including the PRC), which subjects the Sub-Funds to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political risks (including greater risk of nationalisation and political and economic instability), settlement risk (including risks arising from settlement procedures), greater tax, economic and foreign exchange control risk (including risks relating to expropriation or confiscatory taxation), greater risk of market shut down, diplomatic developments and greater governmental regulations and limitations on foreign investment than those typically found in developed markets.

Further, the commercial and financial legal and regulatory framework in many emerging markets is at an early stage of development. The legal system may also be evolving on a continuing basis. As the laws, regulations and legal requirements in many emerging markets may be relatively recent, interpretation and enforcement involve significant uncertainty. It may be difficult to obtain and enforce a judgement in a court in emerging markets. Differences in accounting, auditing and financial reporting standards, practices and disclosure requirements in such emerging markets may

also result in, for example, less information being available to investors and such information being out of date.

The above factors may contribute to the illiquidity of certain of the relevant securities markets and may create inflexibility and uncertainty as to the trading environment. The Net Asset Value of the Sub-Funds may therefore be adversely affected.

#### Counterparty risk

A Sub-Fund will be subject to the risk of the inability of any counterparty to perform with respect to any investments or contracts purchased by the Sub-Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Sub-Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. Such Sub-Fund is likely to be an unsecured creditor in any such proceeding and may obtain only a limited recovery or may obtain no recovery. In such circumstances, the Net Asset Value of the Sub-Funds may be adversely affected.

Deposits of securities or cash with a custodian, bank or financial institution ("custodian or depository") will carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default of them.

#### Liquidity risk

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

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

#### Exchange rate risk

Assets of certain Sub-Funds may be denominated in currencies other than the base currencies of such Sub-Funds and the currency of some assets may not be freely convertible. The Net Asset Value of such Sub-Funds may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant Sub-Fund are held and the base currency of such Sub-Fund.

#### Restricted markets risk

Certain Sub-Funds may invest in securities in jurisdictions (including the PRC) which impose limitations or restrictions on foreign ownership or holdings. Legal and regulatory restrictions or limitations may have an adverse effect on the liquidity and performance of such investments (and hence, the Net Asset Value of such Sub-Funds) due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

### Legal and compliance risk

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

### Suspension risk

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

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

### Early termination risk

Under the Trust Deed, a Sub-Fund may be terminated by the Manager or the Trustee in certain conditions and in the manner as described in "Termination of the Trust or any Sub-Fund" in the section entitled "General" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested.

### Cross class liability risk

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

### Cross Sub-Fund liability risk

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

### Valuation and accounting risk

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes,

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

#### Dividends and distributions risk

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

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

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

#### Foreign Account Tax Compliance Act risk

Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as "FATCA") of the U.S. Internal Revenue Code of 1986, as amended ("IRS Code") impose rules with respect to certain payments to non-U.S. persons, such as the Trust and each Sub-Fund, including interest and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30% rate (beginning on or after 1 July 2014 with respect to U.S. source dividends and interest, and beginning on or after 1 January 2017 with respect to gross proceeds), unless the recipient of the payment satisfies certain requirements intended to enable the Internal Revenue Service (the "IRS") to identify United States persons (within the meaning of the IRS Code) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an "FFI"), such as the Trust and each Sub-Fund (and, generally, other investment funds organised outside the U.S.), generally will be required to enter into an agreement (an "FFI Agreement") with the IRS under which it will agree to identify its direct or indirect U.S. owners and report certain information concerning such U.S. owners to the IRS. The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30% on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

On 13 November 2014, Hong Kong has entered into an intergovernmental agreement with the US ("IGA") for the implementation of FATCA, adopting "Model 2" IGA arrangements. Under this "Model 2" IGA arrangements, FFIs in Hong Kong (such as the Trust and each Sub-Fund) will be required to enter into the FFI Agreement with the US IRS, register with the US IRS and comply with the terms of FFI Agreement. Otherwise the Trust and each Sub-Fund will be subject to a 30% withholding tax on relevant US-sourced payments it receives.

Under the IGA, FFIs in Hong Kong (such as the Trust and each Sub-Fund) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax on payments

they receive; and (ii) will not be required to withhold tax on payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the US IRS), but may be required to withhold tax on payments made to non-compliant FFIs. A Sub-Fund may invest in US listed securities, and therefore the Sub-Fund may be required to withhold the above described 30% tax to the extent that income and proceeds from such US investments are paid to investors that are non-compliant FFIs and potentially on such payments made to recalcitrant account holders. In the latter case, withholding may be required with respect to recalcitrant accounts if, pursuant to certain exchange of information provisions contained in the IGA, the IRS has not obtained information regarding such recalcitrant account holders within a time period specified in the IGA. The first reporting deadline for FFIs that have entered into the FFI Agreement (such as the Trust and each Sub-Fund) was 31 March 2015 with respect to the 2014 calendar year.

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

The FATCA provisions are complex and their application is uncertain at this time. The above description is based in part on regulations, official guidance and the HK IGA, all of which are subject to change. Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Unitholders should therefore consult their own tax and professional advisers regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer the above mentioned withholding tax on their investment returns.

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

#### Risks related to the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard

The “Common Reporting Standard” was developed by the OECD to be an international standard for the automatic exchange of financial account information between relevant jurisdictions. The Inland Revenue (Amendment) (No.3) Ordinance (the “Ordinance”) came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (“AEOI”). The AEOI, as enacted under the Ordinance, requires financial institutions (“FI”) in Hong Kong to identify financial accounts and to collect information relating to reportable accounts held by tax residents of reportable jurisdictions (as listed under Schedule 17E of the Ordinance) (“Reportable Jurisdiction”), and exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, information regarding a reportable account will be exchanged only with jurisdictions with which Hong Kong has signed a comprehensive avoidance of double taxation agreement (CDTA) or tax information exchange agreement (TIEA) and only if Hong Kong has also signed a competent authority agreement (“CAA”); however, the Sub-Funds and/or their agents may further collect relevant information as required by the Ordinance relating to residents of other jurisdictions.

The Sub-Funds are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Sub-Funds and/or their agents shall collect and provide to the Hong Kong Inland Revenue Department (“IRD”) information relating to Unitholders that are determined to be reportable accounts under the Ordinance.

The AEOI rules as implemented by Hong Kong under the Ordinance require the Sub-Funds to, amongst other things: (i) register their 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" for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has entered into a CDTA or TIEA and signed a CAA. The Ordinance requires that Hong Kong FIs report on: (i) individuals or entities that are tax resident of a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax resident of a Reportable Jurisdiction. Details of Unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, TIN, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in Reportable Jurisdictions.

To assist in identifying Unitholders who are reportable persons, the Sub-Funds may require Unitholders and prospective Unitholders to complete self-certification forms for verification of the Unitholders' respective tax residency status.

According to the due diligence procedures under the Ordinance (which are based on the international standard required), self-certification will be required for all new Unitholders who acquire Units on or after 1 January 2017. The Sub-Funds reserve the right to require existing Unitholders before that date to verify their respective tax residences.

A Unitholder should provide the relevant Sub-Fund with a suitably up-dated self-certification form within 30 days of any changes to that Unitholder's tax residency status or related personal particulars. A failure by a prospective investor to provide a duly completed self-certification on or after 1 January 2017 will result in the subscription for Units being rejected. A failure to provide required information under the Ordinance may result in the Unitholders' Units being compulsorily redeemed.

By investing in a Sub-Fund and/or continuing to invest in such Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Sub-Fund, the Manager, the Trustee and/or the Sub-Fund's agents in order for the Sub-Fund to fulfil its obligations under the Ordinance and comply with AEOI. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), if reportable, may be communicated by the IRD to authorities in Reportable Jurisdictions. The failure by a Unitholder to provide any requested information may result in the Sub-Fund, the Manager, the Trustee and/or other agents of the Sub-Fund taking any action and/or pursue remedies at their disposal including, without limitation, compulsory redemption. Any such compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

The first information year (i.e. when financial institutions with a duty under the Ordinance to report, such as the Sub-Funds, must collect information) is the calendar year 2017. The first reporting year (when the Sub-Funds will pass the information via an online AEOI portal to the IRD) is the calendar year 2018.

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

### **Performance fee risk**

In addition to receiving a management fee, the Manager may also receive a performance fee based on the appreciation in the Net Asset Value per Unit. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised. Furthermore, there is no

adjustment of equalisation credit or equalisation losses on an individual Unitholder basis. As such, due to the way in which the performance fee is calculated, a Unitholder may incur a performance fee even though ultimately the Unitholder does not receive a positive return from the Sub-Fund (please also refer to the details of how performance fee is calculated under the section headed “Expenses and Charges”). The performance fee may also create an incentive for the Manager to make investments for the Sub-Fund which are riskier than would be the case in the absence of a fee based on the performance of the Sub-Fund.

## **RMB currency risk**

### RMB is not freely convertible and subject to exchange controls and restrictions risk

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the People’s Bank of China, which are set daily based on the previous day’s PRC interbank foreign exchange market rate. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. However it should be noted that the PRC government’s policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact a Sub-Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future. Any depreciation of the RMB will decrease the value of RMB-denominated assets a Sub-Fund may hold and of any dividends that a Sub-Fund may receive from such investments, which may have a detrimental impact on the Net Asset Value of such Sub-Fund, and vice versa.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of SAFE. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

### Investors may be adversely affected by movements of exchange rates between the RMB and other currencies

For investors investing in Units which are denominated in RMB or investing in Sub-Funds whose investments are primarily denominated in RMB, if their assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB, they should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB. There is no guarantee that the RMB will appreciate in value against the HKD or any other currency, or that the strength of the RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into HKD (or any other currency).

Where a Sub-Fund invests in RMB-denominated assets, currency risk arises where an investor subscribes to Units of a class denominated in a currency other than RMB and the subscription monies in the Base Currency of the relevant Sub-Fund are converted into the RMB in order to make RMB-denominated portfolio investments, and where RMB-denominated portfolio investments are liquidated and RMB funds are converted back into the relevant Base Currency to pay redemption proceeds. The calculation of the Net Asset Value per Units of any class not denominated in RMB



will also be adversely impacted by movements in the exchange rate between the RMB and the Base Currency of the relevant Sub-Fund.

## **Risks associated with the PRC**

### Economic, political and social risks

The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

Although the majority of productive assets in China are still owned by the PRC government at various levels, in recent years, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of China and a high level of management autonomy. The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government has implemented various measures from time to time to control inflation and restrain the rate of economic growth.

For more than 20 years, the PRC government has carried out economic reforms to achieve decentralisation and utilisation of market forces to develop the economy of the PRC. These reforms have resulted in significant economic growth and social progress. There can, however, be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any such adjustment and modification of those economic policies may have an adverse impact on the securities market in the PRC as well as the underlying securities of the Sub-Fund. Further, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may also have an adverse impact on the capital growth and performance of the Sub-Fund.

Political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the fixed income instruments in the Sub-Fund's portfolio.

The above factors could negatively affect the value of the investments held by a Sub-Fund and consequently the performance of such Sub-Fund.

### PRC laws and regulations risk

The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. PRC laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations. Such uncertainties could negatively affect the value of the investments held by a Sub-Fund and consequently the performance of such Sub-Fund.

Securities exchanges in the PRC typically have the right to suspend or limit trading in any security traded on the relevant exchange. The PRC government or the regulators may also implement policies that may affect the financial markets and impose restrictions on foreign ownership or holdings. All these may have a negative impact on the Sub-Fund.

### Accounting and reporting standards risk

Accounting, auditing and financial reporting standards and practices applicable to PRC companies may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors. Further, the accounting, auditing and financial reporting standards and practices applicable to Chinese companies may be less rigorous. As the disclosure and regulatory standards in China are less stringent than in more developed markets, there might be substantially less publicly available information about issuers in China on which the Manager can base investment decisions.

### Changes in PRC taxation risk

The PRC government has implemented a number of tax reform policies in recent years. There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. A Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any revision or amendment in tax laws and regulations may also affect the after-taxation profit of PRC companies and foreign investors in such companies. Any of the above changes may reduce the income from, and/or the value of, the relevant investments in a Sub-Fund. In particular, please refer to the “Taxation” section below.

### Risks associated with PRC taxation

By investing in securities issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore (“onshore PRC securities”) or offshore (“offshore PRC securities”), and together with onshore PRC securities, the “PRC Securities”), a Sub-Fund may be subject to PRC taxes.

Please refer to the section headed “Taxation” below for further information on the risks associated with PRC taxation.

## **Securities investment risks**

### Investing in equity securities risk

The Sub-Fund’s investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors. Equity markets may fluctuate significantly with prices rising and falling sharply, and this will have a direct impact on the Sub-Funds. When equity markets are extremely volatile, the Sub-Fund’s Net Asset Value may fluctuate substantially and investors may suffer substantial loss.

### Risks associated with convertible securities

Certain Sub-Funds may invest in convertible bonds. Convertible bonds are bonds that are convertible into equity securities, and are subject to risks related to non-convertible debt instruments. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities, which provide a stable stream of income with generally higher yields than those of equity securities of the same or similar issuers. The price of a convertible security normally varies with changes in the price of the underlying stock, although the higher yield tends to make the convertible security less volatile than the underlying stock. Therefore, convertible bonds may from time to time have similar behaviour as the underlying stocks, and substantial changes to the value of the underlying stocks may impact on the value of convertible bonds, which in turn may have an adverse impact on the Sub-Funds.

### Risk of investing in financial derivative instruments

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

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

### Over-the-counter markets risk

Over-the-counter (OTC) markets are subject to less governmental regulation and supervision of transactions (in which many types of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions.

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

### Hedging risk

The Manager is permitted, but not obliged, to use hedging techniques, to attempt to offset market risks. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result, in which case the performance of the relevant Sub-Fund may be adversely impacted.

## TAXATION

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

### Hong Kong

During such period as the Trust and a Sub-Fund is authorised by the SFC pursuant to Section 104 of the SFO, under present law and practice in Hong Kong:

- (a) profits of the Trust and the Sub-Fund are exempt from Hong Kong profits tax;
- (b) no tax should be payable by Unitholders of that Sub-Fund in Hong Kong (whether by way of withholding or otherwise) in respect of income distributions from the relevant Sub-Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong, and where the profits, not being regarded as capital in nature, arising in or derived from such trade, profession or business and being sourced in Hong Kong; and
- (c) no Hong Kong stamp duty should be payable where the sale or transfer of Units in that Sub-Fund is effected by selling the relevant Units back to the Manager, who then either extinguish the Units or re-sells the Units to another person within two months thereof.

Other types of sales or purchases or transfers of Units by the Unitholders should be liable to Hong Kong stamp duty of 0.2% (equally borne by the buyer and the seller) on the higher of the consideration amount or market value.

### PRC

By investing in securities (including A-shares and debt instruments) issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore ("onshore PRC securities") or offshore ("offshore PRC securities", and together with onshore PRC securities, the "PRC Securities"), a Sub-Fund may be subject to PRC taxes.

### Enterprise Income Tax ("EIT")

Pursuant to the PRC Enterprise Income Tax Law (the "EIT Law"), effective from 1 January 2008, and its implementation rules, if the Trust or the relevant Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to EIT at 25% on its worldwide taxable income. If the Trust or the relevant Sub-Fund is considered a non-tax resident enterprise with an establishment or place of business ("PE") in the PRC, the profits and gains attributable to that PE would be subject to PRC EIT at 25%.

The Manager intends to manage and operate the Trust and each Sub-Fund in such a manner that the Trust and each Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with PE in the PRC for EIT purposes, although this cannot be guaranteed. As such, it is expected that the Trust and each Sub-Fund should not be subject to EIT on an assessment basis and would only be subject to EIT on a withholding basis to the extent that the Trust or the relevant Sub-Fund directly derives PRC sourced income in respect of its investments in PRC Securities, as further described below.

If the Trust or the relevant Sub-Fund is non-tax resident in the PRC and has no PE in the PRC, the Trust or the relevant Sub-Fund would be subject to PRC withholding income tax ("WIT") at the rate of 10% on income such as dividends or interest income from PRC investee companies and gains realised from the disposition of the shares in the PRC investee companies, subject to applicable income tax treaty relief, if any. Interests derived from government bonds are exempt from PRC WIT under the EIT Law.

The WIT rate may be reduced or waived by the relevant double tax agreements/arrangements between Hong Kong and the PRC, if applicable, subject to the equity holding ratio and the tax residency status of the relevant holding company, whether it is the beneficial owner of the income in the case of interest and dividend income and the approval from the PRC tax authorities.

After the EIT Law took effect on 1 January 2008, a non-resident enterprise which has no establishment or place of business in China should technically be subject to WIT on the gains derived from disposal of PRC Securities and dividends received from issuers of PRC Securities. The prevailing WIT rate for both gains on disposal and dividends is 10%, with the possibility of reduction or exemption under an applicable double tax treaty or arrangement between Hong Kong and the PRC.

Pursuant to the "Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect" (Caishui [2014] No.81) ("Notice No.81") and the "Notice about the tax policies related to the Shenzhen-Hong Kong Stock Connect" (Caishui [2016] No. 127) ("Notice No. 127") promulgated by the Ministry of Finance (the "MOF"), the State Administration of Taxation (the "SAT") and the China Securities Regulatory Commission (the "CSRC") on 14 November 2014 and on 1 December 2016 respectively, corporate income tax and individual income tax will be temporarily exempted on gains derived by foreign investors (including the relevant Sub-Funds) on the trading of A-shares through the Stock Connect.

For capital gains on trading of H-shares by non-resident enterprises in the stock exchange, no WIT on capital gains is being imposed in practice. However, there are still uncertainties as to whether WIT will be imposed on capital gains derived from trading of B-shares.

The SAT issued circulars to clarify that dividends from PRC Securities distributed from profits of year 2008 and subsequent years should be subject to WIT at 10% or a reduced rate pursuant to any applicable income tax treaty or arrangement. At present, a 10% PRC WIT is withheld at source in respect of dividend income on PRC Securities for non-resident enterprises by the entity distributing such dividend income.

Specified rules governing WIT on capital gains derived by foreign investors from the trading of PRC Securities (other than A-shares) have yet to be announced. It is possible that the relevant tax authorities may in the future clarify or change the tax position on capital gains realised by the Sub-Funds dealing in PRC Securities. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the EIT Law. If the foreign investor is a non-tax resident enterprise without PE in the PRC, a 10% WIT would be imposed on the PRC-sourced capital gains, unless exempt or reduced under prevailing PRC tax laws and regulations or relevant tax treaties.

The Manager reserves the right to provide for WIT on any gains or income and withhold the tax for the account of the relevant Sub-Funds. The amount of actual provision (if any) will be disclosed in the financial reports of the relevant Sub-Funds.

It should be noted that any level of provision may be excessive or inadequate to meet actual PRC tax liabilities on investments made by the relevant Sub-Funds. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), investors should note that the Net Asset Value of the relevant Sub-Funds may be lowered, as such Sub-Funds will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the relevant Sub-Funds, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in such Sub-Funds. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

Upon the availability of any further clarifications or in the event of any change in tax assessment or the issue of announcements or regulations by the competent authorities promulgating any further clarification or change in tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

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

Pursuant to Caishui [2016] No.36 ("[Circular 36](#)"), with effect from 1 May 2016, the gains derived from the trading of Chinese securities would be subject to VAT instead of business tax. Based on Circular 36 and Notice No. 127, the gains derived through the Stock Connect from the trading of China A-shares would/will be exempt from VAT.

However, other than the VAT exemption in the paragraph above, Circular 36 shall apply to levy VAT at 6% on the difference between the selling and purchase prices in trading of those securities.

There is no clear rule on whether there is VAT exemptions on capital gains derived from trading of B-shares by foreign enterprises (including the relevant Sub-Funds). Thus, there may be VAT imposed on the relevant Sub-Funds for trading of B-shares in China. The trading of H shares and other kinds of offshore shares should not be subject to VAT.

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

If VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of VAT payable.

#### Stamp duty

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

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

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

#### General

It should also be noted that the actual applicable tax rates imposed by the SAT may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

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

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

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

## **GENERAL**

### **Financial reports**

The Trust's and each Sub-Fund's financial year end is on 30 June in each year. The first financial year end of the Trust is 30 June 2016.

Audited annual financial reports drawn up in accordance with IFRS and unaudited interim financial reports will be prepared for each financial year. Financial reports will be available in English only.

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of audited annual financial reports, and within two months after 31 December in each year in the case of unaudited interim financial reports. Once issued the financial reports will be available in softcopy from the website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC) and in hardcopy for inspection at the Manager's office free of charge during normal working hours (hardcopies are also available for Unitholders to take away free of charge upon request).

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

### **Distribution policy**

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

The compositions of the dividends (i.e. the relative amounts paid from net distributable income and capital), if any, for the last 12 months (a rolling 12-month period starting from the date on which payment of dividends is being made out of capital or effectively out of capital) will be available from the Manager on request and on the Manager's website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC). The Manager may amend the policy regarding paying dividends out of capital and/or effectively out of capital subject to the SFC's prior approval and by giving not less than one month's advance notice to Unitholders.

### **Trust Deed**

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

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

### **Modification of the Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the



Manager or any other person from any liability to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the relevant Sub-Fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases involving any material changes, no modifications, alterations and additions may be made without the approval of the SFC (where such SFC approval is required) or the sanction of an extraordinary resolution of the Unitholders affected. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Trustee (or the Trustee will procure that notice be given by the Manager) unless such amendment or modification is not in the opinion of the Trustee of material significance.

### **Meetings of Unitholders**

Meetings of Unitholders may be convened by the Manager or the Trustee. Unitholders holding 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting where a special resolution is to be proposed and 14 days' notice of any other meeting where 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 is Unitholders present in person or by proxy representing not less than 25% of the Units in issue. 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. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the Unitholder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders.

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

### **Transfer of Units**

Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the Register of Unitholders in respect of such Units. The Manager or the Trustee is entitled to require from the transferor and/or the transferee the payment to it of a fee (the maximum amount of which shall be agreed by the Trustee and the Manager from time to time), together with a sum equal to any expenses incurred by the Trustee in connection therewith.

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

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

The Trust shall continue (and each Sub-Fund, except in the case of (a), (d) or (e) in the next paragraph in respect of one or more Sub-Funds, shall continue) until it is terminated in one of the ways set out below.

The Trust (or in the case of (a), (d) or (e) in this paragraph in respect of one or more Sub-Funds) may be terminated on the occurrence of any of the following events: (a) any law shall be passed which renders it illegal or, in the opinion of the Trustee or the Manager, impracticable or inadvisable

to continue the Trust and/or any Sub-Fund (as the case may be); (b) the Trustee shall be unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal or retirement of the Manager for the time being; (c) the Trustee shall have decided to retire but within three months from the date of the Trustee giving its written notice to retire as the Trustee, the Manager shall be unable to find a suitable person who is willing to act as trustee; (d) if the Trustee and the Manager agree that it is undesirable to continue the Trust and/or any Sub-Fund (as the case may be) and the affected Unitholders sanction the termination by way of extraordinary resolution; or (e) the affected Unitholders determine, by extraordinary resolution, that the Trust and/or any Sub-Fund (as the case may be) should be terminated (in which case, such termination shall take effect from the date on which such extraordinary resolution is passed or such later date (if any) as the extraordinary resolution may provide).

The Trust may be terminated by the Trustee giving prior written notice to the Manager and the Unitholders if any of the following events shall occur: (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; (b) the Trustee shall form the opinion for good and sufficient reason and shall so state in writing to the Manager that the Manager is incapable of performing its duties under the Trust Deed satisfactorily; (c) the Manager shall fail to perform its duties under the Trust Deed satisfactorily or the Manager shall do any other thing which in the opinion of the Trustee is calculated to bring the Trust into disrepute or to be harmful to the interests of the Unitholders; (d) any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust; (e) either the Trustee shall be unable to find a person acceptable to the Trustee to act as the new manager within 30 days after the removal of the Manager for the time being pursuant to the provisions of the Trust Deed or the person nominated by the Trustee shall fail to be approved by an extraordinary resolution; or (f) the Trustee shall have decided to retire but within 60 days of the Trustee giving notice to the Manager of its desire to retire the Manager shall be unable to find a suitable person who is willing to act as trustee.

The Trust (or in the case of (a), (b), (d) or (e) in this paragraph, one or more Sub-Funds) may be terminated by the Manager in its absolute discretion by notice in writing to the Trustee: (a) if the aggregate Net Asset Value of the Units in all Sub-Funds, or the Net Asset Value of any Sub-Fund, outstanding shall be less than HKD100 million; (b) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Trust or any Sub-Fund and which renders the Trust or such Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Trust or such Sub-Fund; (c) if within a reasonable time and using commercially reasonable endeavours, the Manager shall be unable to find a person acceptable to the Manager to act as the new Trustee after deciding to remove the Trustee for the time being pursuant to the provisions of the Trust Deed; (d) if the Manager is unable to implement its investment strategy in respect of all Sub-Funds or any Sub-Fund; or (e) if the Manager, in its good faith opinion, considers it in the best interest of the relevant Unitholders to terminate the Trust and/or any Sub-Fund.

If the Trust or a Sub-Fund is to be terminated, prior notice in writing will be provided to affected Unitholders. The period of such prior notice will be determined in accordance with the Code.

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

## **Documents available for inspection**

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

- (a) the Trust Deed;
- (b) this Explanatory Memorandum and product key facts statement; and
- (c) the most recent annual financial report of the Trust and the Sub-Fund (if any) and the most recent interim financial report of the Trust and the Sub-Fund (if any).

## **Anti-money laundering regulations**

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

The Trustee, the Manager and their respective delegates and agents each reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee, the Manager or any of their respective delegates or agents may refuse to accept the application and return the application monies relating to such application.

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

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

## **Liquidity risk management**

The Manager has put in place measures to effectively manage the liquidity risk of the Sub-Fund(s). The Manager's risk management function monitors the implementation of liquidity risk management policies on a day-to-day basis. The risk management function regularly communicates with the portfolio managers on each Sub-Fund's liquidity risk issues. The Manager also has in place liquidity risk management tools (such as those described under the "Restrictions on Redemption" section) which allow the Manager to process redemptions in an orderly manner and to ensure that all investors are treated fairly.

On an on-going basis, the Manager's risk management function will assess each Sub-Fund's liquidity position against internal liquidity indicators. The liquidity indicators are set based on the minimum or maximum proportion of each Sub-Fund's assets that can be liquidated under different period of trading days. Where a Sub-Fund is unable to meet the indicators, the risk management function will consider whether additional analysis is needed to be performed and whether further action should be taken to manage the liquidity risk of such Sub-Fund. Policies have been put in

place and documentation will be maintained on the assessments. The Manager will also perform liquidity stress testing on each Sub-Fund on an ongoing basis. Liquidity risk management is discussed every quarter at the risk management committee meeting.

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

### **Conflicts of interest**

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

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each Sub-Fund, are treated fairly.

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

### **Websites**

The offer of the Units is made solely on the basis of information contained in this Explanatory Memorandum. This Explanatory Memorandum may refer to information and materials included in websites, which may be updated or changed from time to time without any notice. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed

by the SFC. Investors should exercise an appropriate degree of caution when assessing the value of such information and materials.

## APPENDIX 1 – VL CHINA FUND

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

### **Investment objective**

The investment objective of the Sub-Fund is to provide long-term capital appreciation by investing in a diversified portfolio of equity securities of companies in different industry sectors whose primary business focus is in the China region. There can be no assurance that the Sub-Fund will achieve its investment objective.

### **Investment strategy**

The Sub-Fund seeks to achieve its investment objective primarily through exposure to companies carrying on business or with business exposure in the China region with long term growth prospects.

The Sub-Fund will invest at least 70% of its Net Asset Value in equity securities issued by companies with either assets in, or revenues derived from the PRC that are listed, traded or dealt in on the Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange or other overseas regulated markets. The Sub-Fund intends to gain access to A-shares listed on the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange (including shares listed on the Small and Medium Enterprise Board and/or the ChiNext Board) through the Shanghai-Hong Kong Stock Connect and/or the Shenzhen-Hong Kong Stock Connect and/or other relevant programmes (when such other programmes become available) (please refer to the sub-section headed “Stock Connect” below for more information). The Manager does not intend to use A-shares access products. The Sub-Fund will invest less than 30% of its Net Asset Value in shares listed on the Small and Medium Enterprise Board and/or the ChiNext Board. The Sub-Fund will not invest more than 10% of its Net Asset Value in B-shares listed, traded or dealt in on the Shanghai Stock Exchange and/or Shenzhen Stock Exchange.

The Sub-Fund’s portfolio will be primarily denominated in HKD and RMB.

The Manager intends to invest primarily in equity securities of companies in different industry sectors which have substantial exposure to the PRC. The Sub-Fund adopts value investing strategies and looks for solid investments that can be made at valuations that are, in the Manager’s opinion, attractive relative to their long-term growth prospects. Such undervaluation or mispricing opportunities in the market will usually arise in situations when a market leader has temporarily floundered in a particular industry down-cycle but shows signs of a turnaround on the basis of the underlying fundamentals, and in a sector that has temporarily lost favour with the investing public. The Sub-Fund does not attempt to follow any benchmark indices in determining its sector or individual stock weightings and there are no fixed sector weightings in the allocation of assets of the Sub-Fund.

The Sub-Fund may also take a flexible and opportunistic investment approach and will pursue a broad range of event-driven transactions to secure investment returns independent of the general market conditions. Such an event-driven investment strategy seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as a merger, an acquisition, a spinoff, or a rights issue.

Subject always to the investment restrictions described below and in the Trust Deed, the Sub-Fund has flexibility to invest in a wide range of instruments including, but not limited to, equities, convertible securities, equity-related instruments, collective investment schemes, commodities, futures, options, warrants, swaps and other derivative instruments. Derivative instruments may be exchange-traded or over-the-counter but shall only be used for the purpose of hedging.

The Sub-Fund will not enter into any securities lending agreements or repurchase and reverse-repurchase agreements.

The Sub-Fund may retain amounts in cash or cash equivalents (including money market funds) in circumstances considered appropriate by the Manager, such as for operational purposes or during adverse market conditions. Cash and cash equivalents in aggregate will not exceed 30% of the Net Asset Value of the Sub-Fund. The Manager will adjust the Sub-Fund's allocation to cash depending on prevailing market conditions.

### **Stock Connect**

The Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (collectively, the "Stock Connect") is a securities trading and clearing links programme developed by the Hong Kong Exchanges and Clearing Limited (the "HKEx"), the Shanghai Stock Exchange (the "SSE"), the Shenzhen Stock Exchange (the "SZSE") and the China Securities Depository and Clearing Co., Ltd. (the "CSDCC"), which provides mutual stock market access between mainland China and Hong Kong.

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

#### *Eligible securities*

Initially, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the "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 A-shares that are not included as constituent stocks of the relevant indices but which have corresponding H-shares listed on the SEHK, except the following:

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

SZSE Securities will include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalisation of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

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

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

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

#### *Trading day*

Investors (including the Sub-Fund) can only trade on the 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 is subject to a daily quota ("Daily Quota") for each of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which is separate for Northbound and Southbound Trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Sub-Fund and are utilised on a first-come-first-serve basis. The SEHK monitors the quota and publishes the remaining balance of the Northbound Trading Daily Quota at scheduled times on the HKEx's website. The Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

#### *Settlement and custody*

The Hong Kong Securities Clearing Company Limited (the "HKSCC") is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors. SSE Securities or SZSE Securities acquired by an investor through Northbound Trading is maintained with such investor's broker's or custodian's stock account with the Central Clearing and Settlement System ("CCASS") operated by HKSCC.

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

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities or SZSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE or SZSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities or SZSE Securities. The HKSCC monitors the corporate actions affecting SSE Securities or SZSE Securities and keeps the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

#### *Currency*

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

#### *Trading fees*

In addition to paying trading fees and stamp duties in connection with A-share trading, the Sub-Fund may be subject to certain other fees which are yet to be determined by the relevant authorities.

#### *Coverage of Investor Compensation Fund*

Any investments in SSE Securities or SZSE Securities done by the Sub-Fund through Northbound Trading under the Stock Connect will not be covered by Hong Kong's Investor Compensation Fund.

Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Examples of default are insolvency, in bankruptcy or winding up, breach of trust, defalcation, fraud, or misfeasance.

The Investor Compensation Fund only covers products traded in Hong Kong's recognised securities market (i.e. SEHK) and recognised futures market (i.e. Hong Kong Futures Exchange Limited or "HKFE"), as defined in the SFO.



Since defaults in relation to Northbound Trading do not involve products listed or traded on SEHK or HKFE, thus, similar to the case of investors trading overseas securities, such defaults will not be covered by the Investor Compensation Fund.

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

#### *Foreign shareholding restrictions*

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

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

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

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

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

Further information about the Stock Connect is available at the website: <http://www.hkex.com.hk/eng/csm/index.htm> (this website has not been reviewed by the SFC).

#### **Investment restrictions**

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

#### **Available classes**

The Sub-Fund currently offers the following classes of Units:

- Class A Units, denominated in HKD
- Class B Units, denominated in HKD

Additional classes of Units may be created in the future.

### Dealing procedures

For details of dealing procedures, please refer to the sections headed “Subscription of Units” and “Redemption of Units” in the main body of this Explanatory Memorandum. The following apply to the Sub-Fund:

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

Investors should note that subscription monies in respect of the Sub-Fund must be paid in the currency of denomination of the relevant class of Units. Redemption proceeds will be paid to redeeming Unitholders in the currency of denomination of the relevant class of Units.

### Payment of redemption proceeds

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

### Investment minima

The following investment minima apply to the Sub-Fund:

	<b>Class A Units</b>	<b>Class B Units</b>
<i>Minimum initial investment</i>	HKD50,000	HKD 39,000,000
<i>Minimum subsequent investment</i>	HKD5,000	HKD 1,000,000
<i>Minimum holding</i>	HKD50,000	HKD 39,000,000
<i>Minimum redemption amount</i>	HKD5,000	HKD 1,000,000

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

### Publication of Net Asset Value

The latest Subscription Price and Redemption Price in respect of Units or the Net Asset Value per Unit of the Sub-Fund are available on the Manager’s website [www.vlasset.com](http://www.vlasset.com) (this website has not been reviewed by the SFC and may contain certain information of funds not authorised by the SFC).

### Expenses and charges

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

Fees payable by Unitholders

	<b>Class A Units</b>	<b>Class B Units</b>
<i>Subscription fee</i>	Up to 5% of the subscription monies or non-cash subscription (as the case may be)	Up to 5% of the subscription monies or non-cash subscription (as the case may be)
<i>Redemption fee</i>	Nil	5% of the redemption price for the first 3 years of investment; Nil thereafter
<i>Switching fee</i>	N/A. Switching not currently available for the Sub-Fund.	

Fees payable by the Sub-Fund

	<b>Class A Units</b>	<b>Class B Units</b>
<i>Management fee</i>	1.5% per annum of the Net Asset Value of the relevant class of Units	0.75% per annum of the Net Asset Value of the relevant class of Units
<i>Performance fee</i>	15% per annum of the appreciation of the Net Asset Value of the relevant class of Units	7.5% per annum of the appreciation of the Net Asset Value of the relevant class of Units
<i>Trustee fee</i>	In respect of each class of Units, 0.11% per annum of the Net Asset Value if the Net Asset Value is below HKD1,000 million, and 0.09% per annum of the Net Asset Value if the Net Asset Value is HKD1,000 million or above and subject to a monthly minimum of HKD54,600 per calendar month.	

**Additional risk factors**

Investors should note the following risk factors set out in the section entitled "Risk Factors" in the main body of this Explanatory Memorandum, which are applicable to the Sub-Fund: "Investment risk", "Market risk", "Concentration risk", "Emerging market risk", "Counterparty risk", "Liquidity risk", "Exchange rate risk", "Restricted markets risk", "Legal and compliance risk", "Suspension risk", "Early termination risk", "Cross class liability risk", "Cross Sub-Fund liability risk", "Valuation and accounting risk", "Foreign Account Tax Compliance Act risk", "Risks associated with the PRC", "Risks associated with PRC taxation", "RMB currency risk", "Investing in equity securities risk", "Risk of investing in financial derivative instruments", "Over-the-counter markets risk" and "Hedging risk".

The following risk factors are brought to your attention being specific to the Sub-Fund:

Investment risk

You should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the Sub-Fund's assets. There is no guarantee of repayment of principal. Accordingly, there is a risk that you may not recoup the original amount you invested in the Sub-Fund or may lose a substantial part or all of your investment.

#### Concentration risk

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Sub-Fund, the Sub-Fund's exposure to a limited number of regions (i.e. China and Hong Kong) subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global or regional investment fund as it is more susceptible to fluctuation in value resulting from adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the China and Hong Kong markets.

#### Risks of investing in equities instruments

There are risks involved in the Sub-Fund's investments in equities instruments.

Please refer to "Investment risks – Risks of investing in equity securities" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum. Below are further specific risks that investors should be aware of.

*Risk of investing in equity securities:* The Sub-Fund will invest directly or indirectly in equity securities and is exposed to the risk that the market value of such equity securities (and hence the Net Asset Value of the Sub-Fund) may go down as well as up. Equity markets may fluctuate significantly due to factors including investment sentiment; political, economic or environmental issues; regional or global economic instability; and currency and interest rate fluctuations. Prices may rise and fall sharply, and this will have a direct impact on the Sub-Fund. When equity markets are extremely volatile, the Sub-Fund's Net Asset Value may fluctuate substantially and investors may suffer substantial losses.

#### Risks associated with the PRC and PRC taxation

There are risks involved in the Sub-Fund's investments in the PRC, including risks associated with PRC taxation. Please also refer to "General risks – Emerging market risk" and "Risks associated with the PRC" under the section headed "RISK FACTORS", as well as the sub-section entitled "PRC" set out under the section headed "TAXATION" in the main body of this Explanatory Memorandum.

Pursuant to Notice No.81 and Notice No. 127, corporate income tax, business tax, and individual income tax will be temporarily exempted on gains derived by foreign investors (including the Sub-Fund) on the trading of A-shares through the Stock Connect. In light of Notice No.81 and Notice No. 127 and having taken and considered independent professional tax advice and acting in accordance with such advice, the Manager will not make provision for gross realised or unrealised capital gains derived from trading of A-shares via Stock Connect.

Having consulted independent tax adviser, the Manager has determined that since the potential impact of the imposition of WIT on gains on trading of B-shares is considered immaterial and the possibility of the imposition of such tax liability is considered remote, no provision will be made in respect of WIT on gains on trading of B-shares. The Manager will monitor the situation and if, in the opinion of the Manager, a provision is warranted, the change will be implemented by the Manager and Unitholders will be notified of the change.

Notice No. 81 and Notice No. 127 stipulates that the exemptions from tax liability provided thereunder are temporary in nature. It is also possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively. Any such changes may result in higher taxation on PRC investments than currently contemplated.

The PRC tax rules and practices in relation to the Stock Connect, including Notice No.81 and Notice No. 127, are new and their implementation is not tested and is uncertain. In the event that tax liability is imposed, the relevant amounts will be deducted from the Sub-Fund's assets which may consequently reduce the value of the Units.

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

#### RMB currency and conversion risk

The Sub-Fund's investments may be denominated in the RMB. The RMB is not freely convertible and subject to exchange controls and restrictions. Investors whose assets and liabilities are predominantly in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and the RMB as well as associated fees and charges. There is no guarantee that RMB will not depreciate. Any depreciation of the RMB could adversely affect the value of the investor's investment in the Sub-Fund.

A portion of the Sub-Fund's assets will be invested into investments denominated in RMB, which is different from the base currency of the Sub-Fund, being HKD. As a result, the Sub-Fund is exposed to higher transaction costs associated with currency conversion (i.e. from HKD subscription monies to RMB for the Sub-Fund to invest in RMB-denominated investments and from RMB sale proceeds after the Sub-Fund has disposed of the RMB-denominated investments to HKD to meet redemption requests as and when necessary).

Assets of the Sub-Fund denominated in RMB are valued with reference to the CNH rate. Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of proceeds of sales and/or dividend payment to the Sub-Fund in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

Please also refer to "RMB currency risk" under the section headed "RISK FACTORS" in the main body of this Explanatory Memorandum.

#### Small and Medium Enterprise board ("SME Board") and ChiNext market risks

The Sub-Fund may invest in the ChiNext market and/or stocks listed on the SME Board of the SZSE and may be subject to the following risks:

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

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

*Differences in regulation:* The rules and regulations regarding companies listed on the ChiNext market are less stringent in terms of profitability and share capital than those in the main board and SME Board.

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

#### Risk of specific investment strategy

The Sub-Fund adopts value investing strategies in its investments, which may not achieve the desired results under all circumstances and market conditions.

#### Risks relating to Stock Connect

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

*Quota limitations:* The Stock Connect is subject to quota limitations. The investment quota does not belong to the Sub-Fund and is utilised on a first-come-first-serve basis. In particular, once the remaining balance of the Northbound Trading Daily Quota drops to zero or the Northbound Trading Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Sub-Fund's ability to invest in A-shares through the Stock Connect may be affected.

*Suspension risk:* The Stock Exchange of Hong Kong Limited, the SSE and the SZSE reserve the right to suspend Northbound and/or Southbound Trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound Trading is effected, the Sub-Fund's ability to access the PRC market through the Stock Connect will be adversely affected.

*Operational risk:* The Stock Connect provides a channel for investors from Hong Kong and overseas to access the China stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. As the securities regimes and legal systems of the two markets differ significantly, market participants may need to address issues arising from such differences on an on-going basis in order for the programme to operate.

Further, the "connectivity" in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

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

*Clearing and settlement risk:* The HKSCC and CSDCC have established the clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. Should the remote event of CSDCC default occur and the CSDCC be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC's liquidation. In that event, the Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

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

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

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

*Participation in corporate actions and shareholders' meetings:* HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities. Hong Kong and overseas investors (including the Sub-Fund) will need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities and SZSE Securities may be as short as one business day only. Therefore, the Sub-Fund may not be able to participate in some corporate actions in a timely manner.

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

*No Protection by Investor Compensation Fund:* Investment through the Stock Connect program is conducted through broker(s), and is subject to the risks of default by such brokers' on their obligations. The Sub-Fund's investment through Northbound Trading under Stock Connect is not covered by Hong Kong's Investor Compensation Fund or the CSIPF. Investors should note that the Sub-Fund is exposed to the risk of default of the broker(s) it engages for its Northbound Trading through the programme.

*Regulatory risk:* The Stock Connect is evolving, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

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

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

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

*Shenzhen-Hong Kong Stock Connect Specific Risks:* The Shenzhen-Hong Kong Stock Connect is newly launched and does not have an operating history and the risks identified above are particularly relevant to the Shenzhen-Hong Kong Stock Connect due to the lack of an operating history. Investors should note that the performance of the Shenzhen-Hong Kong Stock Connect may not be the same as the performance of the Shanghai-Hong Kong Stock Connect to date.

#### Risk of investing in financial derivative instruments

Although the use of derivatives will not substantially form part of the investment strategy of the Sub-Fund, the Manager may, for hedging purposes only, invest in listed warrants and futures, index and currency swaps and currency forwards subject to the investment restrictions applicable to the Sub-Fund including Chapter 7 of the Code. These instruments can be highly volatile and expose investors to increased risk of loss. Please also refer to “Investment risks – Risk of investing in financial derivative instruments” under the section headed “Risk Factors” in the main body of this Explanatory Memorandum.

#### Hedging risk

The Manager may from time to time use hedging techniques, including investments in listed warrants and futures, index and currency swaps and currency forwards, to offset market and currency risks. There is no guarantee that such techniques will be effective. Please refer to “Investment risks – Hedging risk” under the section headed “Risk Factors” in the main body of this Explanatory Memorandum.

### **Financial Reports**

The first financial report for the Sub-Fund covered the period to 30 June 2016.

### **Distribution policy**

The Manager does not intend to make any distributions from the Sub-Fund.