

# OFFERING MEMORANDUM

DATED JANUARY 2015

## HUAAN AGGREGATE FUND SERIES

**IMPORTANT: If you are in doubt about the contents of this Offering Memorandum or any Supplement, you should seek independent professional financial advice.**

This Offering Memorandum and/or any Supplement do not constitute an offer or solicitation to any person in any jurisdiction which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation or is unlawful without compliance with any registration, filing or other requirements.

No information contained in this Offering Memorandum and each Supplement shall constitute as recommendation or advice to a prospective investor in relation to its personal position.

Investment involves risks and investors may lose all, or a substantial part, of their investment in a Sub-Fund.

An investor should not invest in a Sub-Fund unless the intermediary who distributes or sells the Sub-Fund has explained that the Sub-Fund is suitable for the investor having regard to the investor's financial situation, investment experience and investment objectives.

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## SECTION 1

### NOTICE

#### 1.1 Preliminary information on Offering Memorandum

This Offering Memorandum contains particulars relating to HuaAn Aggregate Fund Series (the **Trust**, as defined in the section entitled "GLOSSARY OF TERMS"), an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a trust deed (the **Trust Deed**, as defined in the section entitled "GLOSSARY OF TERMS") dated 12 January 2012 between HuaAn Asset Management (Hong Kong) Limited as the manager (the **Manager**, as defined in the section entitled "GLOSSARY OF TERMS") also and BOCI-Prudential Trustee Limited as the trustee (the **Trustee**, as defined in the section entitled "GLOSSARY OF TERMS"). The Units are offered on the basis of the information and representations contained in this Offering Memorandum and the relevant Supplement.

At present, the only Units that are on offer are those that are referable to HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund. The particulars in respect of HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund are set out in Supplements 1 and 2 herein.

#### 1.2 Selling restrictions

The distribution of this Offering Memorandum and any of the Supplements and the offering of Units may be wholly or partly restricted in certain jurisdictions. It is the responsibility of the persons in possession of this Offering Memorandum and the relevant Supplement and the persons wishing to make applications for Units pursuant to or on the basis of this Offering Memorandum and the relevant Supplement to inform themselves of and to observe fully the applicable laws and regulations of any relevant jurisdiction, in particular:-

- the legal requirements within the countries of their nationality, residence or domicile for the subscription for the Units;
- any foreign exchange restriction or exchange control requirements which they might encounter on the subscription for or redemption of the Units; and
- the income tax and any other tax consequences which might be relevant to the subscription for or the holding or redemption of the Units.

Neither this Offering Memorandum nor any Supplement constitutes an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation or is unlawful without compliance with any registration, filing or other requirements.

In addition:-

- (a) This Offering Memorandum and any of the Supplements do not constitute an offer of securities in the United States. Any re-offer or resale of any of the Units in the United States or to, or for the account or benefit of, US Persons without the consent of the Manager is prohibited.

- (b) The Units have not been registered under the Securities Act or the securities laws of any state or political subdivision of the United States, and no such registration is contemplated. The Units may not be offered, sold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any US Person, except pursuant to an exemption from, or in a transaction not subject to the requirements of, the Securities Act and any applicable United States state securities laws. Any re-offer or resale of any of the Units in the United States or to US Persons may constitute a violation of United States law. The Trust and any of the Sub-Funds have not been registered and does not intend to register:-
- (i) under the Investment Company Act in reliance on the exemption from such registration pursuant to section 3(c)(7) thereunder; or
  - (ii) with the CFTC as a commodity pool operator, in reliance on the exemption from such registration pursuant to CFTC rule 4.13(a)(4).
- (c) The Units have not been filed with or approved or disapproved by any regulatory authority of the United States or any state thereof, nor has any such regulatory authority passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Memorandum and any of the Supplements. Any representation to the contrary is unlawful. Accordingly, the Units may be offered and sold only outside the United States to non-US Persons in offshore transactions that meet the requirements of Regulation S under the Securities Act. Each applicant for the Units must certify that it is not a US Person.

### **1.3 Registrations and authorisations**

HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund has each been authorised by the SFC as a collective investment scheme pursuant to section 104 of the SFO. SFC authorisation is not a recommendation or endorsement of HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund nor does it guarantee the commercial merits of HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund or its respective performance. It does not mean HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund are suitable for all investors nor is it an endorsement of its suitability for any particular investor or classes of investors.

Except for the obtaining of authorisation from the SFC, no action has been taken to permit the distribution of this Offering Memorandum and the Supplement related to HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund in any jurisdiction where action would be required for such purpose. Accordingly, no person receiving a copy of this Offering Memorandum and the Supplements related to HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund in any territory other than Hong Kong may treat the same as constituting an invitation to purchase or subscribe for the Units nor should the Subscription Form be used unless in the relevant territory where such an invitation could lawfully be used without compliance with any registration or legal requirement.

### **1.4 Forward-looking statements**

The statements contained in this Offering Memorandum and any of the Supplements that are not historical facts are forward-looking statements. These forward-looking statements are based on current expectations, estimates and projections about the financial and commodity markets in which a Sub-Fund may invest, and the beliefs and assumptions of the Manager. Words such as "expects", "targeted", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "forecasts", "projects", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain

risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and returns may differ materially from what is expressed or forecasted in such forward-looking statements.

### **1.5 Reliance on this Offering Memorandum**

Units are offered solely on the basis of the information and representations contained in this Offering Memorandum, the relevant Supplement and the documents specified in this Offering Memorandum and the relevant Supplement, and no other information or representation relating to the offering of such Units is authorised and any further information given or representations made by any person may not be relied upon as having been authorised by the Manager. Units should be acquired only on the basis of information contained in this Offering Memorandum, the relevant Supplement or incorporated by reference in this Offering Memorandum or the relevant Supplement.

In making an investment decision on the Units, investors must rely on their own examination of the Sub-Fund and the terms of investment in the Units, including the merits and risks involved. Any subscription by a prospective investor on the basis of statements or representations not contained in, or not consistent with, this Offering Memorandum and the relevant Supplement will be solely at the risk of the investor. The delivery of this Offering Memorandum and the relevant Supplement does not imply that the information contained in each such document is correct as at any time subsequent to the date as appearing on its cover. This Offering Memorandum or a Supplement may be updated from time to time.

No information contained in this Offering Memorandum and each Supplement shall constitute a recommendation or advice to a prospective investor in respect of its personal position.

### **1.6 Effect of the Trust Deed and other documents**

This Offering Memorandum and each of the Supplements refer to or summarise certain provisions of the Trust Deed and other documents relating to the Trust or entered into or to be entered into by the Trustee or the Manager on behalf of the Trust. Such references and summaries are not intended to be exhaustive and, in some instances, contain generalisations.

### **1.7 Responsibility statement**

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

### **1.8 Enquiries and complaints**

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

- (a) write to the Manager at Suite 3808-9, 38/F ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong; or
- (b) call the Manager's customer service hotline on +852 3190 1016.

The Manager will respond to any enquiry or complaint in writing as soon as practicable within seven Business Days.

## SECTION 2

### DIRECTORY

#### HUAAN AGGREGATE FUND SERIES

<b>MANAGER</b>	<b>DIRECTORS OF THE MANAGER</b>	<b>PRC INVESTMENT ADVISER</b>
HuaAn Asset Management (Hong Kong) Limited Suite 3808-9 38/F ICBC Tower Citibank Plaza 3 Garden Road Central Hong Kong	He Yizhi  Zhu Xuehua  Tang Yi	HuaAn Fund Management Company Limited International Finance Center II 31/F, 8 Century Avenue Shanghai China
<b>TRUSTEE AND REGISTRAR</b>	<b>GLOBAL CUSTODIAN</b>	<b>PRC SUB-CUSTODIAN</b>
BOCI-Prudential Trustee Limited 12/F & 25/F Citicorp Centre 18 Whitfield Road Causeway Bay Hong Kong	<small>Code App C3(b)</small> C3(g) Bank of China (Hong Kong) Limited 14/F Bank of China Tower 1 Garden Road Hong Kong	Bank of China Limited No. 1, Fuxingmen Nei Dajie Beijing, 100818 China
<b>LEGAL ADVISERS TO THE MANAGER</b>	<b>AUDITOR</b>	<b>TAX ADVISER TO THE MANAGER</b>
as to Hong Kong law only (excluding tax)  Clifford Chance 28th Floor, Jardine House 1 Connaught Place Central Hong Kong  as to PRC law only  Llinks Law Offices 19/F, One Lujiazui 68 Yin Cheng Road Middle Shanghai 200120 China	PricewaterhouseCoopers 21/F Edinburgh Tower 15 Queen's Road Central Hong Kong	as to Hong Kong and PRC corporate tax implications in respect of the Trust only  PricewaterhouseCoopers Limited 21/F Edinburgh Tower 15 Queen's Road Central Hong Kong

## SECTION 3

### GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Offering Memorandum and each Supplement, including the sections entitled "NOTICE":

<b>Auditor</b>	PricewaterhouseCoopers or any successor appointed as the auditor of the Trust.
<b>Authorised Distributor</b>	Any person appointed by the Manager to distribute some or all of the Sub-Funds to potential investors.
<b>Base Currency</b>	RMB, unless such other currency as specified in the relevant Supplement.
<b>Business Day</b>	Any day (other than a Saturday, Sunday or a public holiday) on which banks in Hong Kong or the location(s) specified in the relevant Supplement are generally open for banking business or such other day as the Manager and the Trustee may from time to time determine, provided that where, as a result of an occurrence of a number 8 (or greater) typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on such day is reduced, such day shall not be a Business Day, unless the Manager otherwise determines.
<b>CFTC</b>	The United States Commodity Futures Trading Commission.
<b>China or PRC</b>	The People's Republic of China (excluding Hong Kong, Macau and Taiwan).
<b>China A-shares</b>	means securities of companies incorporated in China and listed on a PRC Stock Exchange, traded in RMB and available for investment by domestic investors and RQFIIIs.
<b>Class Currency</b>	In relation to each class of Units, the currency in which such class of Units is denominated, as specified in the relevant Supplement.
<b>Commodity Exchange Act</b>	The United States Commodity Exchange Act of 1936, as amended.
<b>Connected Person</b>	means in relation to any person (such person for the purpose of this definition, referred to as the <b>Principal</b> ) means: <ul style="list-style-type: none"><li>(a) any person beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Principal or able to exercise, directly or indirectly, 20% or more of the total voting rights attributable to the voting share capital of the Principal;</li><li>(b) any company controlled by any such person as is described in (a) above and for this purpose control of a company means (i) control (either direct or indirect) of the</li></ul>

composition of the board of directors of that company; or (ii) control (either direct or indirect) of more than half the voting rights attributable to the voting share capital of that company; or (iii) the holding (either directly or indirectly) of more than half of the issued share capital (excluding any part of it which confers no right to participate beyond a specified amount in a distribution of either profits or capital), provided always that if the Trustee and the Manager agree some other definition acceptable to the SFC of the expression "control" such definition shall be substituted for the above definition thereof;

- (c) any company 20% or more in aggregate of whose ordinary share capital is beneficially owned, directly or indirectly, by the Principal and any company 20% or more in aggregate of the total votes attributable to the voting share capital of which can be exercised, directly or indirectly, by the Principal; or
- (d) any director or other officer of any Principal or of any company which is a Connected Person pursuant to (a), (b) or (c) above;

<b>CCDC</b>	means the China Central Depository & Clearing Co., Ltd.
<b>CSDCC</b>	means the China Securities Depository & Clearing Corporation Limited.
<b>CSRC</b>	means the China Securities Regulatory Commission of the PRC, the government agency responsible for matters relating to securities regulation.
<b>Dealing Day</b>	Each Business Day or such other day or days as the Manager may determine from time to time with the approval of the Trustee, as described in the Supplement for the relevant Sub-Fund.
<b>Dealing Deadline</b>	In relation to any Dealing Day shall be such time on such Dealing Day or on such other Business Day as the Manager may from time to time with the approval of the Trustee determine generally or in relation to any particular class or classes of Units or any particular jurisdiction in which Units may from time to time be sold and different Dealing Deadlines may be determined in relation to the issue, conversion and realisation of different classes of Units, as described in the Supplement for the relevant Supplement.
<b>Directors</b>	The directors of the Manager from time to time.
<b>Eligible Investor</b>	Any person, corporation or entity other than a person, corporation or entity which cannot acquire or hold the Units without violating laws or regulations whether applicable to it, the Trust or otherwise or whose holding might result (either individually or in conjunction with other investors in the Units in the same circumstances) in the Trust incurring any liability to taxation or pecuniary or fiscal disadvantage which the Trust might not otherwise incur or suffer or

the Trust being required to register or register any class of its securities under the laws of any jurisdiction (including, without limitation, the Securities Act, the Investment Company Act or the Commodity Exchange Act) unless such registration has been disclosed in this Offering Memorandum and/or the Supplement, or the assets of the Trust being characterised as "plan assets" under ERISA or a custodian, nominee or trustee for any person, corporation or entity described above.

<b>ERISA</b>	The United States Employee Retirement Income Security Act of 1974, as amended.
<b>Extraordinary Resolution</b>	A resolution proposed and passed as such by 75% or more of the votes of those Unitholders present and entitled to vote in person or by proxy at a duly convened meeting of Unitholders.
<b>FINRA</b>	The Financial Industry Regulatory Authority of the United States.
<b>Global Custodian</b>	Bank of China (Hong Kong) Limited or any successor appointed as the global custodian of the Trust's assets.
<b>Global Custody Fee</b>	The custody fees and charges payable to the Global Custodian out of the assets of a Sub-Fund in accordance with the section entitled "CHARGES AND EXPENSES".
<b>Hong Kong</b>	The Hong Kong Special Administrative Region of the PRC.
<b>HK\$</b>	Hong Kong dollars, the lawful currency of Hong Kong.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Initial Offering Period</b>	The initial offering period in relation to a class of Units, which commences and ends on the time and date as set out in the Supplement relevant to the Sub-Fund, or such other period the Manager and the Trustee shall agree.
<b>Initial Subscription Price</b>	The initial subscription price for each Unit of a particular class during the Initial Offering Period, as set out in the relevant Supplement.
<b>Investment Company Act</b>	The United States Investment Company Act of 1940, as amended.
<b>Management Fee</b>	The management fee payable to the Manager out of the assets of a Sub-Fund in accordance with the section entitled "CHARGES AND EXPENSES".
<b>Manager</b>	HuaAn Asset Management (Hong Kong) Limited or any successor appointed as the manager of the Trust.
<b>Minimum Holding</b>	The minimum value of Units expressed in the Base Currency which must be held by a Unitholder as set out in the relevant Supplement, provided that the Manager may, in its absolute discretion and acting in good faith, permit a lower amount. Such minimum value is set out in the relevant Supplement.

<b>Minimum Initial Subscription</b>	The minimum value of Units to be expressed in the Base Currency which must be subscribed for by a Unitholder when initially subscribing for Units, provided that the Manager may, in its absolute discretion and acting in good faith, permit a lower amount. Such minimum value is set out in the relevant Supplement.
<b>Minimum Redemption</b>	The minimum value of Units to be expressed in the Base Currency which must be redeemed by a Unitholder when submitting a redemption request, provided that the Manager may, in its absolute discretion and acting in good faith, permit a lower amount. Such minimum value is set out in the relevant Supplement.
<b>Minimum Subsequent Subscription</b>	The minimum value of Units to be expressed in the Base Currency which must be subscribed for by a Unitholder when subsequently subscribing for Units, provided that the Manager may, in its absolute discretion and acting in good faith, permit a lower amount. Such minimum value is set out in the relevant Supplement.
<b>NAV or Net Asset Value</b>	The net asset value determined in accordance with the Trust Deed (as summarised in the section entitled "VALUATION AND PRICES").
<b>Offering Memorandum</b>	The offering memorandum of the Trust (including any Supplements or addenda issued), as amended, substituted or supplemented from time to time.
<b>Ordinary Resolution</b>	A resolution passed by a simple majority of the votes of such Unitholders present and entitled to do vote in person or by proxy at a duly convened meeting of Unitholders.
<b>PBoC</b>	means the People's Bank of China.
<b>PRC Investment Adviser</b>	HuaAn Fund Management Company Limited or any successor appointed as the investment adviser to the Manager in relation to investments in the PRC.
<b>PRC Stock Exchanges</b>	means the Shanghai Stock Exchange, the Shenzhen Stock Exchange and any other stock exchange that opens in the PRC.
<b>PRC Sub-Custodian</b>	Bank of China Limited or any successor appointed as the custodian of the Trust's assets in the PRC.
<b>QFII Quota</b>	means a PRC foreign exchange investment quota granted to a qualified foreign institutional investor pursuant to the QFII Regulations.
<b>QFII Regulations</b>	means the regulations and rules, as amended from time to time, governing the establishment and operation of qualified foreign institutional investors and QFII Quotas.

<b>Redemption Fee</b>	The redemption fee payable in relation to a redemption of Units by a redeeming Unitholder as described in the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS".
<b>Redemption Form</b>	A redemption request of Units in such form as may be issued from time to time.
<b>Redemption Price</b>	The price per Unit at which Units may be redeemed on a Dealing Day, being the Net Asset Value per Unit at the Valuation Point on the relevant Dealing Day, exclusive of any Redemption Fee.
<b>Register</b>	The register in which the names of the Unitholders are listed.
<b>Registrar</b>	BOCI-Prudential Trustee Limited in its capacity as registrar of the Trust.
<b>RMB</b>	Renminbi, the lawful currency of the PRC.
<b>RMB-Denominated Debt Instruments</b>	has the meaning as defined at page 61.
<b>RQFII</b>	means a RMB qualified foreign institutional investor under the RQFII Regulations.
<b>RQFII Permitted Securities</b>	means securities and investments permitted to be held or made by RQFIIs under RQFII Regulations, which currently include the following RMB denominated financial instruments: <ul style="list-style-type: none"> <li>(a) China A-shares;</li> <li>(b) fixed income securities traded on the PRC Stock Exchanges or the interbank market in the PRC;</li> <li>(c) PRC securities investment funds approved by the CSRC; and</li> <li>(d) other financial instruments from time to time approved by the CSRC or the PBoC.</li> </ul>
<b>RQFII Quota</b>	means a RMB investment quota granted to a RQFII pursuant to the RQFII Regulations.
<b>RQFII Regulations</b>	means the regulations and rules, as amended from time to time, governing the establishment and operation of RQFIIs and RQFII Quotas.
<b>SAFE</b>	means the PRC State Administration of Foreign Exchange, the government agency responsible for matters relating to foreign exchange administration.
<b>SAT</b>	The State Administration of Taxation of the PRC.
<b>Securities Act</b>	The United States Securities Act of 1933, as amended.

<b>Separate Class Account</b>	A class account to record the allocation of the assets and liabilities of a Sub-Fund referable to a class of Units (as defined in the section entitled "VALUATION AND PRICES").
<b>SFC</b>	The Securities and Futures Commission of Hong Kong.
<b>SFO</b>	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended.
<b>Sub-Fund</b>	A separate pool of assets within the Trust with respect to which one or more separate classes of Units may be issued and which is invested and administered separately from other assets of the Trust.
<b>Subscription Fee</b>	The subscription fee payable by a Unitholder on the issue of Units as described in the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS".
<b>Subscription Form</b>	An application for the subscription for Units in such form as may be issued from time to time.
<b>Subscription Price</b>	The price per Unit at which Units shall be issued on each Dealing Day after the end of the Initial Offering Period, being the Net Asset Value per Unit at the Valuation Point on the relevant Dealing Day, and shall be exclusive of any Subscription Fee.
<b>Supplement</b>	means, in relation to a Sub-Fund, a supplement to, and forming part of, this Offering Memorandum and which sets out information additional to and/or amending the information contained in this Offering Memorandum in relation to that Sub-Fund as such supplement may be amended or supplemented from time to time.
<b>Trust</b>	HuaAn Aggregate Fund Series.
<b>Trustee</b>	BOCI-Prudential Trustee Limited or any successor appointed as the trustee of the Trust.
<b>Trust Deed</b>	The trust deed entered into by the Manager and the Trustee in establishing the Trust, as amended, substituted or supplemented from time to time.
<b>Trustee Fee</b>	The trustee fee payable to the Trustee out of the assets of a Sub-Fund in accordance with the section entitled "CHARGES AND EXPENSES".
<b>Unit</b>	Where there is only one class of Units in issue in relation to a particular Sub-Fund, one undivided portion in the Sub-Fund to which it relates. Where more than one class of Units is in issue in relation to a Sub-Fund, the number of undivided portions of that Sub-Fund represented by a Unit of a particular class is adjusted to take account of the different terms of issue of the different classes of Units. A fraction of a Unit of the same class shall represent the corresponding fraction of an undivided portion in the relevant Sub-

Fund or part of the relevant Sub-Fund.

**Unitholder**

A person for the time being entered on the Register as the holder of a Unit including, persons jointly so registered.

**United States or US**

The United States of America, its states, territories and possessions, and any enclave of the United States government, its agencies or instrumentalities.

**US\$ or USD**

US dollars, the lawful currency of the United States.

**US Person**

Generally:-

- (a) any US citizen or resident;
- (b) any corporation, partnership or other entity (other than a trust or estate) created, organised or existing under the laws of the United States or any potential subdivision thereof;
- (c) any estate the income of which is subject to US federal income tax regardless of its source or of which any executor or administrator is a US Person;
- (d) any trust of which any trustee is a US Person or a US court is otherwise able to exercise primary supervision over the administration of such trust;
- (e) any agency or branch of a foreign entity located in the United States;
- (f) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person;
- (g) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States; or
- (h) any partnership or corporation organised or incorporated under the laws of any non-US jurisdiction if formed by a US Person principally for the purpose of investing in securities not registered under the US Securities Act, unless it is organised or incorporated and owned by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts, as well as any entity organised outside the United States principally for passive investment, such as a commodity pool, investment company or other similar entity (other than a pension plan for the employees, officers or principals of an entity organised and with its principal business in the United States);

- (i) in which US Persons hold units of participation representing in the aggregate 10% or more of the beneficial interest in the entity; or
- (ii) which has as a principal purpose the facilitating of investment by a US Person in a commodity pool with respect to which the operator is exempt from certain requirements of Part 4 of the CFTC's regulations by virtue of its participants being non-US Persons. Individual retirement accounts of US Persons not resident in the United States are not deemed to be those of US Persons.

**UT Code**

The Code on Unit Trusts and Mutual Funds published by the SFC from time to time.

**Valuation Point**

The close of business in the last of the relevant market to close on each Dealing Day or such other time on a Dealing Day as the Manager with the approval of the Trustee may from time to time determine, as described in the Supplement of the relevant Sub-Fund to calculate the Net Asset Value.

In this Offering Memorandum and each Supplement, unless otherwise specified, words importing the singular number shall include the plural and vice versa and words importing the masculine shall include the feminine and neuter and vice versa.

## SECTION 4

### THE TRUST

#### 4.1 Establishment and authorisation

The Trust, HuaAn Aggregate Fund Series, is an open-ended unit trust constituted by the Trust Deed. The Trust Deed is governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and deemed to have notice of the provisions of the Trust Deed. The Trust has been authorised by the SFC as a collective investment scheme pursuant to section 104 of the SFO.

#### 4.2 Sub-Funds

The Trust has, at the date of this Offering Memorandum, established HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund each as a Sub-Fund.

Further information in relation to HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund are set out in the related Supplements, which form part of and shall be read in conjunction with this Offering Memorandum. To the extent that there is any conflict in relation to a Sub-Fund between the information contained in this Offering Memorandum and the related Supplement which cannot be resolved by reasonable interpretation of both documents, the related Supplement shall take precedence.

#### 4.3 Additional Sub-Funds

The Manager may establish additional portfolios in the Trust (which may comprise of one or more classes of Units) and shall designate each such portfolio as a "Sub-Fund".

The Sub-Fund relating to each class of Units shall initially comprise the proceeds of the issue of Units of such class and of any other class of Units related to such Sub-Fund during the Initial Offering Period for such class or classes of Units after deducting, where appropriate, the Subscription Fee and any additional amount charged by the Manager.

The Sub-Fund relating to each class of Units shall thereafter be comprised of investments, cash and other property held or received by or on behalf of the Trustee for the account of such Sub-Fund, arising from the said proceeds and also out of the proceeds of Units of the relevant class or classes subsequently issued (after deducting, where appropriate, the Subscription Fee, and any other charges) but less any amount standing to the credit of the distribution account or distributed or paid out pursuant to the Trust Deed.

The proceeds from the issue of a Unit of a class shall be applied in the books of the Trust to the Sub-Fund maintained in respect of that class and the assets and liabilities and income and expenditure attributable thereto shall be applied to such Sub-Fund.

Where any asset is derived from another asset (whether of cash or otherwise), such derivative asset shall be applied in the books of the Trust to the same Sub-Fund as the assets from which it was derived and on any valuation of an investment any increase or diminution in value shall be applied to the relevant Sub-Fund.

In the case of any asset of the Trust which the Manager after consultation with the Trustee do not consider is attributable to a particular Sub-Fund, the Manager shall have a discretion subject to the approval of the Trustee, to determine the basis upon which any such asset shall be allocated between

the Sub-Funds and may from time to time vary such allocation provided that the approval of the Trustee shall not be required in any case where the asset is allocated between all the Sub-Funds *pro rata* to the Net Asset Value of each Sub-Fund.

In the case of any liability or contingent liability which the Manager after consultation with the Trustee do not consider is attributable to a particular Sub-Fund and is not to be attributed to any particular Sub-Fund, the Manager shall have a discretion subject to the approval of the Trustee to determine the basis upon which any such liabilities shall be allocated between Sub-Funds including conditions as to the subsequent re-allocation thereof if circumstances make it desirable so to do and shall have power at any time and from time to time to vary such basis provided that the approval of the Trustee shall not be required if the allocation is made between all the Sub-Funds *pro rata* to the Net Asset Value of each Sub-Fund.

#### **4.4 Classes of Units**

The Manager may issue more than one class of Units in relation to a Sub-Fund and may issue additional classes of Units in relation to an already established Sub-Fund. Such classes of Units may be differentiated from each other in such manner as the Manager considers appropriate (for example, different charging structure, different minimum initial and subsequent subscription amounts, etc). Investors should refer to the relevant Supplement for the available classes of Units and the applicable terms of the different classes.

A Separate Class Account will be established for each class of Units within the accounts of a Sub-Fund if the Sub-Fund has more than one class of Units attributed to it.

#### **4.5 Base Currency**

The records and accounts of each Sub-Fund shall be maintained in the Base Currency for that Sub-Fund. Subject to the prior approval of the SFC, the Manager may at any time with the approval of the Trustee, change the Base Currency of any Sub-Fund, provided that the Manager shall notify the Unitholders of the class or classes of Units relating to such Sub-Fund at least 14 days prior to the effective date of the change, subject to compliance with any applicable laws and regulations. For the avoidance of doubt, Unitholders will be given at least one month's prior notice for changes in pricing arrangements.

#### **4.6 Class Currency**

Payments for Units of any class, payments to Unitholders out of the Sub-Fund relating to such class of Units, payments by the Manager for Units of such class redeemed from Unitholders and all other payments in relation to the relevant class of Units provided for in the Trust Deed shall be made in the Class Currency for such class of Units.

## SECTION 5

### INVESTMENT OBJECTIVE AND INVESTMENT POLICY

#### 5.1 Investment objective and investment policy

The investment objective and investment policy for each Sub-Fund are set out in the relevant Supplement. Such investment objective and investment policy may be altered by the Manager from time to time upon taking into consideration the interests of the Unitholders of the relevant Sub-Fund. Any such alteration shall only take effect upon the Manager providing, no less than one (1) month prior to such alteration taking effect, notice in relation to details of such alteration to the Unitholders of that Sub-Fund. In addition, if the alteration is in relation to a Sub-Fund that is authorised by the SFC, prior approval from the SFC will also need to be obtained.

The investment objectives and investment policies for the Sub-Funds may overlap. In these circumstances, the Manager will endeavour to ensure that the investment and divestment opportunities are allocated fairly among such Sub-Funds.

#### 5.2 Investment restrictions

The investment restrictions applicable to a Sub-Fund depend on the investment objectives and investment policies of the relevant Sub-Fund. These investment restrictions are contained in the Trust Deed and, subject to any exemptions or additional restrictions applicable to a particular Sub-Fund as described in the relevant Supplement of the Sub-Fund, are summarised below, which are applicable to the investments in relation to each Sub-Fund individually unless otherwise specified.

- (a) **Investment restrictions:** The following investment restrictions apply:
- (i) the value of the Sub-Fund's holding of securities (other than government and other public securities) issued by any single issuer will not exceed 10% of the total Net Asset Value of the Sub-Fund ("Government and other public securities" shall mean any investment issued by, or the payment of principal and interest on, which is guaranteed by the government of any member state of the Organisation for Economic Co-operation and Development (**OECD**) or any fixed interest investment issued in any OECD country by a public or local authority or nationalised industry of any OECD country or anywhere in the world by any other body which is, in the opinion of the Trustee, of similar standing);
  - (ii) the Sub-Fund, together with all other Sub-Funds under the Trust, will not hold more than 10% of any ordinary shares issued by a single issuer;
  - (iii) the value of the Sub-Fund's holding of securities neither listed, quoted nor dealt in on any stock exchange, over-the-counter market or other organized securities market that is open to the international public and on which the securities are regularly traded will not exceed 15% of the total Net Asset Value of the Sub-Fund;
  - (iv) the value of the Sub-Fund's total holding of options and warrants (other than options and warrants held for hedging purposes), in terms of the total amount premium paid, will not exceed 15% of its total Net Asset Value);
  - (v) term bills and notes, will not exceed in aggregate 10% of the total Net Asset Value of the Sub-Fund;

- (vi) the value of the Sub-Fund's investment in government and other public securities (as defined in (i) above) of the same issue will not exceed 30% of the total Net Asset Value of the Sub-Fund;
- (vii) if all the assets of the Sub-Fund are invested in government and other public securities, such investment will be made in more than six (6) different issues;
- (viii) no uncovered options or covered options on the assets of the Sub-Fund will be written;
- (ix) the writing of call options on investments, in terms of the aggregate exercise price of such call options for the account of such Sub-Fund, would not exceed 25% of its Net Asset Value;
- (x) no investment will be made in futures contracts on an unhedged basis;
- (xi) the aggregate value of the Sub-Fund's holdings of physical commodities and commodity based investments will not exceed 20% of the total Net Asset Value of the Sub-Fund (for the purposes of this paragraph, "physical commodities" shall include without limitation gold, silver, platinum and other bullion and "commodity based investments" shall not include shares in companies, whether or not the companies are engaged in producing, processing or trading in commodities);
- (xii) the value of the Sub-Fund's holding of investments in collective investment schemes which have not been authorised by the SFC and which are not "recognised jurisdiction schemes" for the purposes of the UT Code shall not exceed 10% of its total Net Asset Value. The value of the Sub-Fund's holding of investments in collective investment schemes which are either authorised by the SFC or "recognised jurisdiction schemes" for the purposes of the UT Code shall not exceed 30% of its total Net Asset Value unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in the relevant offering document of the Sub-Fund . No investment may be made for the account of such Sub-Fund in any collective investment scheme which invests primarily in investments prohibited by the SFC for the purposes of investment by collective investment schemes authorised by the SFC;
- (xiii) the value of the Sub-Fund's investment in units of unit trusts, shares of mutual fund corporations or interests in other collective investment schemes will not in aggregate exceed 10% of the total Net Asset Value of the Sub-Fund;
- (xiv) no investment will be made in real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies or interests in real estate investment trusts of whatever structure) ;
- (xv) no securities will be short sold;
- (xvi) no investment, the effect of which is to lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, will be made without the prior written consent of the Trustee;
- (xvii) no asset which involves the assumption of any liability which is unlimited will be acquired;

- (xviii) no investment will be made in any security of any class in any company or body that a Director or an 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 own more than 5% of those securities;
- (xix) no investment will be made in or other holding of any security will be acquired where a call is to be made for any sum unpaid on that security unless that call could be met in full out of the Sub-Fund cash or near cash; and
- (xx) the total borrowing of the Sub-Fund will not exceed 25% of the Net Asset Value of the Sub-Fund.

For the purposes of (i) and (ii) above, exchange traded funds with the following characteristics (or such other characteristics that the SFC may determine from time to time) may be deemed as listed securities for the purposes of (i) and (ii) and shall not be treated as collective investment schemes for the purposes of (xii) above:

a) exchange traded funds that are listed and regularly traded on recognized stock exchanges open to the public (nominal listing not accepted); and the investment objective of the exchange traded funds is to track a securities/commodities index or the performance of the exchange traded funds linked with a securities/commodities index. Such index should be able to comply with the acceptability requirements as stipulated under Chapter 8.6(e) of the UT Code; and/or

b) all exchange traded funds authorised by the SFC.

The Manager will be responsible for monitoring the above investment restrictions. If any of the investment restrictions above is breached, the Manager will take as a priority objective all steps as are necessary within a reasonable period of time to remedy the situation, taking due account of the interests of the Unitholders.

### **5.3 Borrowings**

The purposes for and the restrictions on the level of borrowings which may be made in relation to a Sub-Fund are set out in the Supplement of that Sub-Fund. If borrowings are permitted in relation to a Sub-Fund, the assets of that Sub-Fund may be charged or pledged as security for any borrowings for the account of that Sub-Fund.

## SECTION 6

### MANAGEMENT AND ADMINISTRATION OF THE TRUST

#### 6.1 Structural overview

The Trust is operated by different service providers. Each of their roles is summarised below.

- (a) **Manager:** The Trust is managed and administered by the Manager, who will provide certain investment management and administrative services in relation to the Trust.

Within the Manager there is a team of portfolio managers who make investment decisions for the Trust. It is the responsibility of these portfolio managers to analyse the trends in the economy and the financial markets and determine the appropriate investments and divestments in accordance with the investment objectives and investment policies in relation to each of the Sub-Funds.

- (b) **PRC Investment Adviser:** The PRC Investment Adviser has been appointed by the Manager to provide investment recommendations and research reports on investments and assets in the PRC to the Manager, subject to investment objectives and investment policies in relation to each of the Sub-Funds. The PRC Investment Adviser will not be required to make any investment decision. The Manager will have the sole responsibility in making investment decisions for the Sub-Funds.

- (c) **Trustee, Global Custodian and PRC Sub-Custodian:** The Trustee has been appointed to act as a safeguard of the assets of the Trust and monitoring the compliance by the Manager with the requirements in the Trust Deed, and the interests of the Unitholders are upheld. The Trustee is responsible for the processing of requests for the subscription for, and redemption, transfer or conversion of Units as well as the collection and distribution of the income of the Trust.

The Trustee has appointed the Global Custodian to act as the global custodian of the assets of the Trust and safeguard the assets of the Trust.

In relation to the custodian of the assets of the Trust in the PRC, the PRC Sub-Custodian has been appointed to act as the custodian of such assets.

Both the Global Custodian and the PRC Sub-Custodian are Connected Persons of the Trustee.

- (d) **Registrar:** The Registrar (which is also the Trustee) has been appointed to keep records (i.e. the Register) of information on Unitholders and the number and class of Units held by each Unitholder in accordance with the provisions in the Trust Deed.
- (e) **Authorised Distributors:** The Manager may appoint one or more Authorised Distributor(s) to distribute Units of one or more Sub-Fund(s), and to receive applications for subscription, redemption and/or conversion of Units on the Manager's behalf.

#### 6.2 Manager

- (a) **Background:** The Manager of the Trust is HuaAn Asset Management (Hong Kong) Limited. HuaAn Asset Management (Hong Kong) Limited is a limited liability company incorporated in Hong Kong on 10 June 2010. The Manager is principally engaged to provide asset

management services and securities advisory services in Hong Kong and is licensed and regulated in the conduct of its asset management business (type 9 SFO-regulated activity) and its securities advisory business (type 4 SFO-regulated activity) by the SFC (CE no.: AVW363). The Manager is a wholly-owned subsidiary of HuaAn Fund Management Company Limited, a company established in the PRC, which has been appointed by the Manager as the PRC Investment Adviser.

- (b) **Responsibilities:** The Manager will, *inter alia*, supervise the day-to-day management of the Trust and make investment and divestment decisions in accordance with the investment objectives and investment policies in relation to each of the Sub-Funds.

Unless otherwise required by the SFC or other regulatory authorities, the Manager may, from time to time, delegate any of its powers, duties and discretions in relation to the Trust to an associate of the Manager without prior approval or to any other persons or corporations approved by the Trustee (provided that such approval shall not be unreasonably withheld or delayed) and, notwithstanding such delegation, the Manager shall remain entitled to receive and retain in full the management fee and other sums payable to the Manager under the Trust Deed. The remuneration of such delegates shall be payable by and borne by the Manager and the Manager shall be solely responsible for the acts and omissions of any such delegate.

In addition, under the Trust Deed, the Manager has the following responsibilities:-

- (i) it shall furnish to the Trustee from time to time on demand (and at least once every month) a statement containing such details as the Trustee may require in relation to:-
- (A) any investments which the Manager has directed to be acquired for the account of the Trust;
  - (B) any investments which the Manager has directed to be sold for the account of the Trust; and
  - (C) all information which may be necessary so that the Trustee may be in a position to ascertain the Net Asset Value per Unit;
- (ii) it shall ensure that:-
- (A) subscription proceeds received by the Trustee in respect of the issue of Units and paid or transferred to or vested in, the Trustee are applied in accordance with the provisions of the Trust Deed and the relevant offering documents.
  - (B) on the sale of any investments of the Trust, the net proceeds of such sale are remitted to the Trustee within reasonable time limits;
  - (C) the income of the Trust is applied in accordance with the provisions of the Trust Deed and the relevant offering documents; and
  - (D) the investment of the Trust's assets is in accordance with the investment objectives and investment policies and within any investment restrictions of the relevant Sub-Fund as contained in the Trust Deed and the relevant offering documents;

- (iii) it shall provide in reasonable time such information and instructions as may be required to enable the Trustee, the Global Custodian, the PRC Sub-Custodian or any sub-custodian to perform its obligations in respect of the Trust; and
- (iv) it shall manage the Trust and each of the Sub-Funds in accordance with the Trust Deed in the best interests of the Unitholders and the obligations imposed on it under applicable laws.

(c) ***Material provisions in the Trust Deed relevant to the Manager:-***

- (i) *Exclusion of liability:* The Trust Deed contains provisions which exclude the Manager from liability in certain circumstances. However, such exclusion does not exclude the Manager from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud, negligence or wilful default.
- (ii) *Indemnity:* The Trust Deed provides for the Manager to be indemnified from all liabilities of whatsoever nature which it may incur in performing its duties under the Trust Deed, other than those liabilities that are imposed on it under Hong Kong law or resulting from its fraud, negligence or wilful default.
- (iii) *Termination:* The Manager shall be subject to removal by not less than six (6) months' notice in writing given by the Trustee in any of the following events:-
  - (A) if the Manager goes into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation), becomes bankrupt or if a receiver is appointed over any of their assets;
  - (B) if for good and sufficient reason the Trustee is of the opinion and so states in writing to the Manager that a change of Manager is desirable in the interests of the Unitholders;
  - (C) if Unitholders of not less than 50% in value of the Units (for this purpose Units held or deemed to be held by the Manager shall not be taken into account) deliver to the Trustee in writing a request that the Manager should retire; or
  - (D) if the Manager has ceased to be licensed by the SFC for type 9 regulated activity (asset management).

As soon as practicable after such termination, the Trustee shall, in accordance with the Trust Deed and subject to approval of the SFC, appoint such other person considered by the Trustee to be suitably qualified as the new Manager.

In addition, the Manager shall have the power to retire in favour of some other person considered by the Trustee to be suitably qualified, provided that the manner of such retirement and new appointment shall be in accordance with the Trust Deed.

- (iv) *Restrictive covenants:* The Trust Deed does not contain any provision which restricts or prohibits the Manager from rendering investment management or advisory services to others or engaging in other similar activities.

### 6.3 PRC Investment Adviser

- (a) **Background:** The PRC Investment Adviser is HuaAn Fund Management Company Limited, a company established in the PRC, and is the wholly-owned parent of the Manager. HuaAn Fund Management Company Limited is one of the biggest asset management companies (in terms of assets under management) based in the PRC. As of 31 December 2010, HuaAn Fund Management Company Limited is managing assets worth approximately US\$13 billion.
- (b) **Responsibilities:** The PRC Investment Adviser has been appointed by the Manager to provide investment recommendations and research reports on investments and assets in the PRC to the Manager, subject to investment objectives and investment policies in relation to each of the Sub-Funds. The PRC Investment Adviser will not be required to make any investment decision. The Manager will have the sole responsibility in making investment decisions for the Sub-Funds. The Manager is solely responsible for all acts of the Investment Adviser in connection with the appointment.

### 6.4 Trustee and Registrar

- (a) **Background:** The Trustee and the Registrar of the Trust is BOCI-Prudential Trustee Limited, a registered trust company under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) in Hong Kong.
- (b) **Responsibilities:** Pursuant to the Trust Deed, the Trustee (in its capacity as both the Trustee and the Registrar) is, among other things, responsible for:-
  - (i) the safe-keeping of the assets of the Trust, including registering cash and registrable assets in the name of or to the order of the Trustee (note that in cases where borrowing is undertaken for the account of a Sub-Fund, such assets may be registered in the lender's name or in that of a nominee appointed by the lender) in accordance with the Trust Deed;
  - (ii) issuing a Trustee Report to the Unitholders (which will be included in the annual report) on whether in the Trustee's opinion, the Manager has in all material respects managed the Trust (and each of the Sub-Funds) in accordance with the provisions of the Trust Deed;
  - (iii) ensuring that the methods adopted by the Manager in calculating the value of Units of any class relating to a Sub-Fund are adequate to ensure that the sale, issue, repurchase, redemption and cancellation prices of such Units are calculated in accordance with the provisions of the Trust Deed;
  - (iv) the issue, redemption and cancellation of Units of any class relating to a Sub-Fund are carried out in accordance with the Trust Deed;
  - (v) the maintenance of the Register in accordance with the provisions in the Trust Deed.

The Trustee is also entitled to delegate all or any of its duties powers and discretions under the Trust Deed to another person or corporation approved by the Manager. Notwithstanding such delegation the Trustee shall remain entitled to receive and retain in full the Trustee Fee and other sums payable to the Trustee under the Trust Deed. The Trustee shall be solely responsible for the acts and omissions of any such delegate and for the payment of its remuneration.

(c) ***Material provisions in the Trust Deed relevant to the Trustee (in the capacity as both the Trustee and the Registrar):-***

- (i) *Exclusion of liability:* The Trust Deed contains provisions which exclude the Trustee from liability in certain circumstances. However, such exclusion does not exclude the Trustee from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud, negligence or wilful default.
- (ii) *Indemnity:* The Trust Deed provides for the Trustee to be indemnified from all liabilities of whatsoever nature which it may incur in performing its duties under the Trust Deed, other than those liabilities that are imposed on it under Hong Kong law or resulting from its fraud, negligence or wilful default.
- (iii) *Termination:* The Manager may remove the Trustee on giving not less than three (3) months' notice in writing of such removal to the Trustee. Notwithstanding such notice, the Trustee shall continue as Trustee until the Manager shall, subject to the prior approval of the SFC, appoint a new trustee to act as Trustee in place of the existing Trustee.

If the Trustee goes into liquidation or a receiver is appointed over any of its assets and is not discharged within 60 days, subject to the prior approval of the SFC, the Manager may by notice in writing to the Trustee remove the Trustee from office provided that the Trustee shall not be removed until the Manager shall have by supplemental deed appointed a new Trustee who is qualified under any applicable law to act as trustee.

The Trustee shall not be entitled to retire voluntarily except upon the appointment of a new Trustee. In the event of the Trustee desiring to retire the Manager shall use its reasonable endeavours to find a new trustee qualified to act as the Trustee and the Manager shall, subject to the prior approval of the SFC, appoint such new trustee to be the Trustee in the place of the retiring Trustee.

- (iv) *Restrictive covenants:* The Trust Deed does not contain any provision which restricts or prohibits the Trustee from rendering any trustee or fund administration or registrar services to others or engaging in other similar activities.

## **6.5 Global Custodian**

- (a) ***Background:*** The Trustee has appointed Bank of China (Hong Kong) Limited as the global custodian of the assets of the Trust under an agreement entered into between the Trustee and the Global Custodian (**Global Custodian Agreement**).

Bank of China (Hong Kong) Limited was incorporated in Hong Kong on 16 October 1964 and is a licensed bank in Hong Kong. In 2001, it was restructured by merging and combining the businesses of ten licensed banks in Hong Kong that were owned by the Bank of China Group. At present, Bank of China (Hong Kong) Limited is wholly-owned by BOC Hong Kong (Holdings) Limited, a company incorporated in Hong Kong. BOC Hong Kong (Holdings) Limited is currently listed on The Stock Exchange of Hong Kong Limited and has a stock code of "2388".

With a network of over 280 branches, servicing more than 600,000 corporates and 2 million retail customers, Bank of China (Hong Kong) Limited is the second largest banking group in

Hong Kong. It offers a full range of banking services, including global custody and fund services for institutional clients.

- (b) **Responsibilities:** Pursuant to the Global Custodian Agreement, the Global Custodian will act as the custodian of the Trust's assets, which will be held directly by the Global Custodian or through its nominees, agents or sub-custodians.
- (c) **Material provisions in the Global Custodian Agreement:-**
  - (i) **Exclusion of liability and indemnity:** The Global Custodian Agreement provides that the Global Custodian shall not, in the absence of negligence or wilful breach of duty on the Global Custodian's part, be liable to the Trustee or the Unitholders for any act or omission in the course of in connection with the provision of services by the Global Custodian or by its agents, nominees or sub-custodians or for any claims which the Trustee may suffer as a result or in the course of the discharge by the Global Custodian of its duties under the Global Custodian Agreement.

In addition, the Trustee, on its behalf and on the Unitholders' behalf, shall indemnify and hold the Global Custodian harmless from and against all claims resulting from or arising in connection with the provision of services by the Global Custodian or by its agents, nominees or sub-custodians.

- (ii) **Termination:** The Global Custodian Agreement can be terminated by either party giving to the other not less than 90 days notice in writing provided that either party may forthwith terminate it by notice taking immediate effect if the other party is in breach of any provisions of the Global Custodian Agreement which shall not have been remedied within 60 days after service of notice requiring the same to be remedied.

## 6.6 PRC Sub-Custodian

- (a) **Background:** Bank of China Limited has been appointed as the custodian of the Trust's assets that are located in the PRC under an agreement entered into among the Manager, the Global Custodian and the PRC Sub-Custodian (**RQFII Sub-Custodian Agreement**). The Trustee consents to the appointment of Bank of China Limited as the PRC Sub-Custodian.

Bank of China Limited (**Bank**) was incorporated in mainland China on 31 October 1983 as a commercial bank. It is one of the four state-owned commercial banks of Mainland China and its current businesses cover commercial banking, investment banking, insurance and a wide range of other financial services.

The Bank engages primarily in commercial banking, including corporate and retail banking, treasury business and financial institutions banking. Corporate banking provides customers with personalized and innovative financial services, as well as, financing and financial solutions. Retail banking serves the financial needs of the Bank's individual customers, focusing on providing them with such services such as savings deposit, consumer credit card and wealth management services. Treasury business includes domestic and foreign-currency trading and investment, fund management, wealth management, value-secured debt business, domestic and overseas financing and other fund operation and management services. Financial institution banking refers to services offered to banks, brokerage houses, fund companies and insurance companies worldwide ranging from clearing and inter-bank lending to agency and custodian services.

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

The appointment of the PRC Sub-Custodian may be terminated by not less than ninety (90) days' notice in writing by the Manager or the Global Custodian.

- (b) **Responsibilities:** Pursuant to the RQFII Sub-Custodian Agreement, the PRC Sub-Custodian will act as the custodian of the Trust's assets that are located in the PRC, which may be held directly by the PRC Sub-Custodian.

## **6.7 Distributors**

The Manager may appoint Authorised Distributors to distribute Units of any Sub-Fund and receive applications for subscription, redemption and conversion in relation to Units of any Sub-Fund on its behalf. Any such Authorised Distributor, its employees and its agents may, out of any fees, charges or amounts that the Manager is entitled to receive from the relevant Sub-Fund, receive rebates, discounts, commissions, sales incentives, fees, benefits and/or other advantages in any other forms arising out of or in connection with an investor's investment in the Units of that Sub-Fund subscribed through such Authorised Distributor.

An Authorised Distributor may have discretion, from time to time, to decide on certain matters in relation to the Sub-Funds distributed by it. Investors should refer to the relevant Authorised Distributor for details of any such matters.

## SECTION 7

### CHARGES AND EXPENSES

#### 7.1 Management fee

The Manager is entitled to a management fee (**Management Fee**) payable monthly in arrears out of the assets of each Sub-Fund. The Management Fee is calculated as and accrued at a percentage of the Net Asset Value of the Sub-Fund on each Valuation Point. Such percentage rate is set out in the Supplement of each Sub-Fund and will not exceed 1.75% per annum.

The Manager may increase the percentage rate of Management Fee payable in respect of a Sub-Fund (up to the maximum percentage rate of 1.75% per annum) by giving not less than one (1) month's prior notice to the Unitholders. Any change to the rate of Management Fee payable shall be subject to the prior approval of the SFC.

The Manager is solely responsible for the remuneration of the Investment Adviser and any delegate which it will appoint.

#### 7.2 Trustee fee

The Trustee is entitled to a trustee fee (**Trustee Fee**) payable monthly in arrears out of the assets of each Sub-Fund. The Trustee Fee is calculated as and accrued at a percentage of the Net Asset Value of the Sub-Fund on each Valuation Point. Such percentage rate is set out in the Supplement relevant to the Sub-Fund and will not exceed 0.5% per annum, subject to a minimum monthly fee of RMB 40,000. Any change to the rate of Trustee Fee payable shall be subject to the prior approval of the SFC.

The Trustee may increase the percentage rate of Trustee Fee payable in respect of a Sub-Fund (up to the maximum percentage rate of 0.5% per annum, subject to a minimum monthly fee of RMB 40,000) by giving not less than one (1) month's prior notice to the Unitholders.

#### 7.3 Global custody fees

The Global Custodian is entitled to (among others) transaction charges at customary market rates and custody fees at different rates, largely depending on the markets where the Global Custodian is required to hold the Sub-Fund's assets. Such charges and fees will be calculated monthly and will be paid monthly in arrears, out of the assets of each Sub-Fund. Such charges and fees to the Global Custodian will also cover those incurred by the PRC Sub-Custodian. Both the Global Custodian and the PRC Sub-Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of their duties.

The current rate of the custody fees set out in the Appendix for the relevant Sub-Fund represents the maximum of such custody fees payable by the Sub-Fund.

#### 7.4 Organisation costs

The preliminary expenses incurred in respect of the formation of the Trust and the first Sub-Fund (i.e. HuaAn Aggregate China Bond Fund) including legal fees, tax advisory fees, audit fees and governmental fees are estimated to amount to not more than US\$250,000. Such preliminary expenses was paid from the assets of the first Sub-Fund (i.e. HuaAn Aggregate China Bond Fund) and USD200,000 was fully amortised.

The preliminary expenses incurred in respect of the formation of the second Sub-Fund (i.e. [HuaAn Aggregate China Focus Bond Fund]) including legal fees, tax advisory fees, audit fees and governmental fees are estimated to amount to not more than US\$150,000. Such preliminary expenses will be payable from the assets of the second Sub-Fund (i.e. HuaAn Aggregate China Focus Bond Fund) and amortised over 12 months.

If subsequent Sub-Funds are established in future, the Manager may determine to reallocate any unamortised preliminary expenses to such Sub-Funds.

It should be noted that the proposed treatment of amortising the preliminary expenses over 12 months is not in accordance with the requirements of IFRS, under which the preliminary expenses should be expensed as incurred. The Manager believes that such treatment is more equitable to the initial investors than expensing the entire amount as they are incurred and is of the opinion that the departure is unlikely to be material to the Trust's financial statements. However, if the amounts involved are material to the Trust's financial statements the Manager may be required to make adjustments in the annual financial statements of the Trust in order to comply with IFRS, and if relevant will include a reconciliation note in the annual financial statements of the Trust to reconcile amounts shown in the annual financial statements determined under IFRS to those arrived at by applying the amortisation basis to the Trust's preliminary expenses.

## **7.5 Other operating 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, they will be apportioned between the relevant Sub-Funds in such manner as the Manager may determine, after consultation with the Trustee (such apportionment will be disclosed in the annual financial statements of the Trust). Such costs include but are not limited to the costs of investing and realising the investments of the Sub-Funds, the expenses in connection with the management and trusteeship of the Trust, the fees and expenses of service providers of the Trust, the fees and expenses of the auditors, valuation costs, legal fees, out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties under the Trust Deed, the costs incurred in connection with any listing or regulatory approval, the costs of communicating with and holding meetings of Unitholders, the costs incurred in the preparation and printing of this Offering Memorandum, Supplement, financial reports, notices or other documents to Unitholders (including, if agreed by the Manager, postage costs incurred by any nominee Unitholders for the benefit of the underlying investors in distributing such reports and documents) and other operating costs.

## SECTION 8

### RISK FACTORS

**Prospective investors should be aware that an investment in a Sub-Fund involves a very high degree of risk, including the risk of loss of the entire amount invested. There can be no assurance that a Sub-Fund's investment policy will be successful or that the investment objective will be achieved.**

**In evaluating the merits and suitability of an investment in the Units, prospective investors should give careful consideration to the following risk factors, and any other risks discussed elsewhere in this Offering Memorandum and in the Supplement of the Sub-Fund, which set out the material risks of investing in a Sub-Fund. To the best knowledge of the Manager, this Offering Memorandum and the Supplement of each Sub-Fund includes the information necessary for investors to be able to make an informed judgement of the investment proposed to them and, in particular, the risks in connection with such investment.**

**Investors should read in full this Offering Memorandum and the Supplement of the Sub-Fund, the Trust Deed and the material contracts of the Trust and relevant to the Sub-Fund before subscribing for the Units in the Sub-Fund.**

#### 8.1 Generic risk factors

- (a) **General:** Investors should carefully consider, in relation to a Sub-Fund, the investment objective and investment policy as set out in this Offering Memorandum and the relevant Supplement. Investors should note that a Sub-Fund's investment policy will involve certain risks and can therefore be volatile. Accordingly, investment results may vary substantially over time and the value of an investor's investment in a Sub-Fund may substantially decline as well as substantially appreciate. Investors may receive an amount less than the amount invested upon redemption of Units or termination of the Sub-Fund. Accordingly, an investment in a Sub-Fund should be made only by those persons who could sustain a loss of their entire investment.
- (b) **Past performance:** The past investment performance of the Manager and any of the key personnel and directors of the Manager and/or any entities with which it has been associated, should not be construed as an indication of the future results of an investment in a Sub-Fund. A Sub-Fund's investment performance should be evaluated on the basis that there can be no assurance that the Manager's assessments of the short-term or long-term prospects of investments will prove accurate.
- (c) **Cross liability:** Where the liabilities of a particular class of Units (or a Sub-Fund) exceed the assets pertaining to that class of Units (or Sub-Fund), creditors pertaining to that class of Units (or Sub-Fund) may have recourse to the assets attributable to other classes of Units (or Sub-Funds).
- (d) **Trading volume:** A Sub-Fund may be engaged in a high volume of investment activity resulting in high transaction costs.
- (e) **Valuation:** The value at which a Sub-Fund's investments can be liquidated may differ, sometimes significantly, from the interim valuations (this may be attributed to the overall size, concentration in particular markets and maturities of positions held by a Sub-Fund). In addition, the timing of liquidations may also affect the values obtained on liquidation. At times, third party pricing information may not be available for certain positions held by a Sub-Fund. Valuations of a Sub-Fund's securities and other investments may involve

uncertainties and subjective judgmental determinations and if such valuations should prove to be incorrect, the Net Asset Value of a Sub-Fund could be adversely affected. In addition, valuations based on models will be affected by assumptions in the models and may not reflect the prices at which positions could, in fact, be covered or sold.

Since valuations will be based on assumptions and estimates, not all of which can be confirmed, whether readily or at all, the determinations of the fair value of these investments may be materially higher than the values that a Sub-Fund ultimately realises upon the maturity of the investments, or upon their sale.

In the absence of bad faith or manifest error, the Trustee's valuation determinations are conclusive and binding on all Unitholders. Neither the Manager nor the Trustee will be under any liability if a price reasonably believed by them or it to be the fair market value of a position is found not to be such.

In the event that a price or valuation estimate accepted by the Trustee in relation to an underlying investment subsequently proves to be incorrect or varies from the final published price, no adjustment to any previously published Net Asset Value will be made.

- (f) **Disclosure of information:** In order to have access to investments in certain jurisdictions, the Trustee or the Manager may be required to disclose certain information in relation to Unitholders of the relevant Sub-Fund and/or Unitholders generally to regulatory, governmental or other authorities. The Trustee and the Manager will endeavour to keep information in relation to the Unitholders confidential unless (i) such disclosure is required by law or regulation or (ii) the Trustee or the Manager determines that it is in the best interests of the Unitholders of the relevant Sub-Fund and/or Unitholders generally to disclose such information in order to access certain investments or otherwise manage the Sub-Fund and/or the Trust so long as such disclosure complies with applicable laws and regulations.
- (g) **Investment selection:** The Manager selects investments on the basis of information and data made directly available to it by the issuers of the securities and other instruments or through sources other than the issuers, depending upon the nature of the relevant Sub-Fund. Although the Manager evaluates all such information and data and seeks independent corroboration when it considers appropriate and when such information and data is reasonably available, the Manager is not in a position to confirm the completeness, genuineness or accuracy of such information and data.
- (h) **Legal and regulatory risk:** The laws and regulations affecting businesses continue to evolve in an unpredictable manner. Laws and regulations, particularly those involving taxation, investment and trade, applicable to a Sub-Fund's activities, can change quickly and unpredictably, and may at any time be amended, modified, repealed or replaced in a manner adverse to the interests of the Sub-Fund. The Sub-Fund's investments may be or may become subject to unduly burdensome and restrictive regulation.

In certain developing countries in which assets of a Sub-Fund are invested, it may be difficult to obtain and enforce a judgment. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Sub-Fund and its operations.

## 8.2 Risks relating to the Manager and other service providers

- (a) **Reliance on third party service providers:** The Trust is reliant on the performance of third party service providers for their executive functions. In particular, the Manager, the Investment Adviser, the Trustee, the Global Custodian and the PRC Sub-Custodian will be performing services which are integral to the operation of the Trust. Failure by any service provider to carry out its obligations to the Trust in accordance with the terms of its appointment, including in circumstances where the service provider has breached the terms of its engagement, could have a materially detrimental impact upon the operations of the Trust.

The success of a Sub-Fund is largely dependent upon the Manager's skill and the Investment Adviser's recommendations and there can be no assurance that the trading by the Manager or the individuals employed by the Manager will be profitable in the future.

- (b) **Operational risk:** A Sub-Fund is subject to the usual operational risks associated with the operation of investment funds of this kind. These include the risk of financial loss arising from transactions, settlement and resource management processes associated with reserves and debt management, including risks such as fraud risk, settlement risk, information technology risk, legal risk, accounting risk, personnel risk and reputational risk.
- (c) **Risks of clearing houses, principal counterparties or exchange insolvency:** The liquidity of securities (or other investments) is subject to the risk of trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm, clearing house or exchange or other disruptions of normal trading activity.
- (d) **Settlement risk:** A Sub-Fund will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. Market practices in relation to the settlement of certain securities transactions and the custody of assets could provide increased risks.

## 8.3 Risks arising from the terms of investing in a Sub-Fund

- (a) **Level of redemptions:** Substantial redemptions of Units within a limited period of time could require a Sub-Fund to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of both the Units being redeemed and the outstanding Units. In addition, regardless of the period of time in which redemptions occur, the resulting reduction of the Net Asset Value of the Sub-Fund could make it more difficult for the Sub-Fund to generate profits or recover losses. A Sub-Fund may impose restrictions on the amount of Units which can be redeemed on any one Dealing Day, as set out in the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS" and also in the Supplement of the relevant Sub-Fund.
- (b) **Absence of secondary market:** There is no public market for Units and it is not expected that an active secondary market for Units will develop. Unitholders may be able to dispose of Units only by way of redemption. The risk of any decline in the Net Asset Value of the Units during the period from the making of a redemption request until the relevant Valuation Point will be borne by the Unitholder requesting redemption. A Sub-Fund's investment policy may be disadvantaged by the need to sell assets to raise the cash required to pay for such redemptions. The Manager has the power to suspend redemptions and the power to compel redemptions in certain circumstances as described under the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS", which when exercised may increase the period of risk of such decline.

- (c) **Financial reporting:** The methodology employed for valuing the underlying assets of a Sub-Fund may deviate from and not comply with IFRS.
- (d) **Early termination of a Sub-Fund:** In the event of early termination of a Sub-Fund, such early termination may have the effect of accelerating the unamortised portion of any fees borne by the Sub-Fund, which as a result may reduce the amounts otherwise available for redemption or distribution. In the event of the termination of a Sub-Fund, such Sub-Fund would have to distribute to the Unitholders their *pro rata* interest in the assets of the Sub-Fund. It is possible that at the time of such sale or redemption or distribution, certain investments of the Sub-Fund may be worth less than the initial cost of such investments, or that, due to their illiquidity, they may be liquidated or realised under conditions less favourable than the ones that prevailed at the time of their valuation, and consequently resulting in a loss to investors.
- (e) **Tax considerations (withholding tax on Units):** In relation to a Sub-Fund, unless otherwise disclosed in the Supplement, no withholding tax is currently imposed in respect of distributions or other payments on Units. There can be no assurance, however, that no withholding tax will be imposed on such payments in the future as a result of any change in any applicable law, treaty or regulation, or the official application or interpretation thereof by the relevant tax authorities, or other causes. The imposition of any such unanticipated withholding tax could materially reduce the value of Units.
- (f) **Tax considerations (income taxation of a Sub-Fund):** Unless otherwise disclosed in the Supplement, no Sub-Fund is currently subject to tax on a net income basis in any country, including Hong Kong. There can be no assurance, however, that the net income of each of the Sub-Funds will not become subject to income tax in one or more countries, as a result of unanticipated activities performed by the Manager or the Trustee, adverse developments or changes in law, contrary conclusions by the relevant tax authorities or other causes. The imposition of any such unanticipated net income taxes could materially reduce a Sub-Fund's post-tax returns available for distributions on, and consequently the value of, the Units.

#### 8.4 Risks associated with investments

- (a) **Unpredictability in price movements:** The performance of a Sub-Fund's investment programme will largely depend upon the Manager's ability to assess correctly the future course of price movements of shares, bonds and other financial instruments, investments and markets. There can be no assurance that the Manager will accurately predict such movements. A failure to predict market movements accurately may adversely affect the ability of the Manager to execute trade orders at desired prices.
- (b) **Market risk:** The value of investments and the income derived from such investments may fall as well as rise and investors may not recoup the original amount invested in the Sub-Funds. In particular, the value of investments may be affected by uncertainties such as international, political and economic developments or changes in government policies. In falling equity markets there may be increased volatility. Market prices in such circumstances may defy rational analysis or expectation for prolonged periods of time, and can be influenced by movements of large funds as a result of short-term factors, counter-speculative measures or other reasons.
- (c) **Emerging markets:** Various countries (including the PRC) in which a Sub-Fund may invest may be considered to be emerging markets. Investments in emerging markets will be sensitive to any change in political, social or economic development in the region. Many emerging countries have historically been subject to political instability which may affect the

value of investments in emerging markets to a significant extent. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The markets of some of the emerging countries in which a Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The markets of developing countries are not as large as the more established markets and have a substantially lower trading volume. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital. There are also possibilities of nationalisation, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of a Sub-Fund's investments.

Accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to some countries in which a Sub-Fund may invest may differ from those applicable in developed countries, for example, less information is available to investors and such information may be out of date.

The lack of adequate custodial, clearance and settlement systems in some emerging economies or markets may prevent either partial or total investment in such economies or markets or may require a Sub-Fund to accept greater custodial, clearance and/or settlement risks in order to make any such investment. There are risks arising from the inadequacy of systems to ensure the transfer, evaluation, compensation and/or recording of securities, the procedure for registering securities, the custody of securities and liquidation of transactions. These risks do not occur as frequently in more developed economies or markets.

The clearance and settlement systems available to effect trades on certain emerging or developing economies or markets as well as the local banking and telecommunications systems may be significantly less developed than those in more developed economies or markets, which may result in delays and other material difficulties in settling trades and in registering transfers of securities. Since the local postal and banking systems in these emerging or developing economies or markets may not meet the same standards as those of more developed economies or markets, no guarantee can be given that all entitlements attaching to securities acquired by a Sub-Fund can be realised. There is the risk that payments of interest or other distributions by bank wire or by cheque sent through the mail could be delayed or lost. In addition, there is the risk of loss in connection with the insolvency of an issuer's bank, particularly because these institutions may not be guaranteed by the local government.

In certain emerging or developing economies or markets, there have been times when clearance and settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Problems with clearance and settlement in these economies or markets may affect the value and liquidity of a Sub-Fund. The inability of a Sub-Fund to make intended securities purchases due to clearance and settlement problems could cause the Sub-Fund to miss attractive investment opportunities. Inability to dispose of a portfolio security caused by such problems could result either in losses to a Sub-Fund due to subsequent declines in value of the portfolio security or, if a Sub-Fund has entered into a contract to sell the security, could result in potential liability to the purchaser.

In addition, such emerging or developing economies or markets may have less developed clearance and settlement procedures. A Sub-Fund will be exposed to credit risks of parties with or through whom it trades and will also bear the risk of settlement default. Market

practice in certain emerging or developing economies or markets, in which a Sub-Fund may invest, in relation to the clearance and settlement of securities transactions, may increase such risks. In certain securities markets, in particular those in emerging or developing economies, transactions may not be executed on a delivery versus payment/receive versus payment basis and there may be a difference in settlement dates for cash and securities, which creates counterparty risk.

- (d) **Currency risk:** Certain Sub-Funds may be invested in part in assets quoted in currencies other than its Base Currency. The performance of such Sub-Funds will be affected by movements in the exchange rate between the currencies in which the assets are held and the Base Currency of the Sub-Funds. Since the Manager aims to maximise returns for such Sub-Funds in their Base Currency, investors in these Sub-Funds may be exposed to additional currency risk.
- (e) **Credit risk:** An issuer suffering an adverse change in its financial condition could lower the credit rating of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security's liquidity, making it more difficult to sell. A Sub-Fund's investment is also subject to the risk that issuers may not make payments on the securities they issue.
- (f) **Over-the-counter transactions:** A Sub-Fund may engage in transactions that are "over-the-counter" (OTC). Contracts for investment in relation to OTC transactions will usually be entered into with a broker or counterparty as principal (and not as agent) and, accordingly, a Sub-Fund is exposed to the risk that the broker or counterparty may, in an insolvency or similar event, be unable to meet its contractual obligations. The participants in OTC markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets and there is no regulated market to facilitate settlement for such transactions. 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. This exposes a Sub-Fund to the risk that a broker or counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the OTC contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing a Sub-Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Sub-Fund has concentrated its transactions with a single or small group of counterparties.

In addition, certain instruments traded on the OTC markets (such as customised financial derivatives and structured products) can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

- (g) **Concentration risk:** A Sub-Fund may invest only in a specific country, region or sector. Each Sub-Fund's portfolio may not be well diversified in terms of the number of holdings, and investors should also be aware that such Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from a limited number of holdings or from adverse conditions in their respective countries, regions and sectors.
- (h) **Hedging:** The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that hedging techniques will achieve their desired result.

- (i) **Liquidity risk:** Some of the markets in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of investments traded on such markets. Certain investments may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such investments at their intrinsic value.
- (j) **Derivative and structured product risk:** A Sub-Fund other than the HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund may invest in derivatives such as options, futures and convertible securities, depositary receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices (for example, participation notes, equity swaps and equity linked notes, which are sometimes referred to as "structured products"). Investment in these instruments can be illiquid where there is no active market for these instruments. Such instruments are also quite complex in nature and there are risks of mispricing or improper valuation and possibilities that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties resulting in a loss in value for the Sub-Fund. These instruments will also be subject to insolvency or default risk of the issuers or counterparties, where there is no central counterparty or settlement. In addition, most of these derivative and structured products involve an embedded leverage, i.e. such instruments has a significantly larger market exposure than the money paid or deposited when the transaction is entered into, and therefore a relatively small adverse market movement could expose the Sub-Fund to the possibility of a loss exceeding the original amount invested.
- (k) **Restricted markets risk:** A Sub-Fund may invest in securities or other investments in jurisdictions (including the PRC) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Fund may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.
- (l) **Counterparty risk:** Counterparty risk is the risk that a counterparty or third party is unable to fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of its counterparty through its investments such as bonds, futures and options. To the extent that a counterparty defaults on its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may experience a decline in value and incur costs associated with its rights attached to the investment.

## 8.5 Other risks

- (a) **Litigation risk:** The Manager, the Trustee and/or their affiliates may be parties to litigation or other adversarial proceedings. Any such litigation or proceeding, even if without merit, may prove detrimental to the operations of the Trust, and which may therefore affect the performance of a Sub-Fund.
- (b) **Terrorist action:** There is a risk of terrorist attacks throughout the world, potentially causing significant loss of life and property damage and disruptions in global markets. Economic and diplomatic sanctions may be in place or imposed on certain states, and military action may be commenced. The impact of such events is unclear but could have material adverse effects on general economic conditions and market liquidity.

- (c) ***Tax consideration (FATCA):*** The Trust will attempt to satisfy any obligations imposed on it to avoid the imposition of any FATCA (as defined in the section entitled "Taxation") withholding tax, however, no assurance can be given that the Trust will be able to satisfy the relevant FATCA obligations. If any Sub-Fund becomes subject to a FATCA withholding tax, the value of the Units held by Unitholders may be affected and the fund may suffer material losses.

## SECTION 9

### CONFLICTS OF INTEREST

The following inherent or potential conflicts of interest should be considered by prospective investors before investing in a Sub-Fund. Where any potential conflict of interest arises, the Manager will endeavour to ensure that any such conflict is resolved in a fair and equitable manner and without prejudice to the Unitholders.

#### 9.1 Payments out of fees

The Manager may, in its discretion, pay to any Authorised Distributor, or otherwise provide any of them with, a commission or rebate out of all or part of its Management Fee and/or Subscription Fee. The selection of an Authorised Distributor and the terms of such agreement are matters solely between the Manager and such Authorised Distributor, provided always that a condition of any such agreement is that no additional obligation or liability will be incurred in relation to the Sub-Fund. Each prospective Unitholder and each Unitholder in subscribing for and in holding Units agrees that such agreements will not be treated as affecting their rights as Unitholders.

#### 9.2 Other clients

The Manager may act as manager, investment manager or advisor to other clients (including investment vehicles which issue securities which a Sub-Fund may invest in, other investment vehicles and funds generally) now or in the future. They may additionally serve as consultant to, or partner or shareholder in, other funds, companies and investment firms. Certain investments may be appropriate for a Sub-Fund and also for other clients advised or managed by the Manager or for the Manager's own proprietary account (the **Proprietary Account**). Investment decisions for a Sub-Fund and for such other clients and the Proprietary Account are made with a view to achieving their respective investment objectives and after consideration of such factors as their current holdings, their respective investment policies, the availability of cash for investment, and the size of their positions generally.

The Manager, the Trustee and any of their directors, officers, employees, agents and affiliates and any person or company with whom they are affiliated or by whom they are employed may be involved in other financial, investment or professional activities which may cause conflicts of interest with the Trust. In particular, they may provide services similar to those provided to the Trust to other entities including entities in which a Sub-Fund may invest, and may not be liable to account for any profit earned from such services. To the extent that there are other conflicts of interest on the part of the Manager, the Manager will ensure that the Unitholders are treated fairly. Each of the Manager, the Trustee, the Global Custodian and the PRC Sub-Custodian will comply with their respective regulatory obligations (where applicable) for managing conflicts of interests and have policies in place to deal with them. In particular there are effective Chinese walls by the Manager and information barriers in place to separate the entities (internally and externally).

In transacting with brokers or dealers connected to the Manager or any of its connected persons, the Manager must ensure that it complies with the following obligations:

- (a) such transactions should be on arm's length terms;
- (b) it must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;

- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the audited financial statements.

### 9.3 Material interests

The Manager may, without reference, advise on or effect any transaction in which it has:

- (a) sold to, or bought from, the Sub-Fund any of the assets of the Sub-Fund, as the case may be;
- (b) acted in the same transaction as an agent for in relation to the Sub-Fund and the counterparty; or
- (c) directly or indirectly a material interest of any description, or has a relationship with another person such as to place it in a position where its duty to or interest in relation to that other person, which conflicts or may conflict with its duty in relation to the Sub-Fund.

Without prejudice to the generality of the foregoing, it is understood that the Manager, the Investment Adviser, the Trustee, the Registrar, the Global Custodian, the PRC Sub-Custodian, the Authorised Distributors and their delegates may have common management and/or common directors. Situations may arise where there are conflicts of interests among such entities. If such conflict arises, the Manager will use its best efforts to ensure that any transactions relating to a Sub-Fund are carried out at arm's length and that Unitholders are treated fairly.

### 9.4 Soft dollar, cash rebate and commissions

- (a) **Commissions on trading between the Sub-Funds:** The Manager and/or any Connected Person may enter into transactions for or with a Sub-Fund either as agent, in which case they may receive and retain customary brokerage commissions, or as a principal with a Sub-Fund, provided that such transactions are carried out as if effected on normal commercial terms negotiated on an arm's length basis, consistent with best execution standards and subject to such commissions being charged at rates which do not exceed customary full service brokerage rates.
- (b) **Soft dollars:** The Manager and/or any Connected Person reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any Connected Person have an arrangement under which that party will from time to time, in relation to a Sub-Fund, provide to or procure for the Manager and/or any Connected Person 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 (i) can reasonably be expected to benefit that Sub-Fund, (ii) are of demonstrable benefit to the Unitholders of that Sub-Fund and (iii) may contribute to an improvement in the performance of that Sub-Fund or of the Manager and/or any Connected Person in providing services to that Sub-Fund and for which no direct payment is made but instead the Manager and/or any Connected Person undertake to place business with that party. In such circumstances, transaction executions will be consistent with best execution standards, and brokerage rates will not be in excess of customary institutional full-service brokerage rates. 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.

- (c) **Rebates:** The Manager and/or any Connected Person will not retain the benefit of any cash commission rebate (being repayment of a cash commission made by a broker or dealer to the Manager and/or any Connected Person) paid or payable from any such broker or dealer in respect of any business placed with such broker or dealer by the Manager and/or any Connected Person for or on behalf of a Sub-Fund. Any such cash commission rebate received by the Manager and/or any Connected Person from any such broker or dealer will be held for the account of that Sub-Fund.

## SECTION 10

### SUBSCRIPTIONS, REDEMPTIONS, TRANSFERS AND CONVERSIONS

#### 10.1 Subscription for Units

- (a) ***Subscription procedures during Initial Offering Period:*** Units attributed to a Sub-Fund will be offered to prospective investors during the Initial Offering Period for that Sub-Fund at the initial subscription price per Unit specified in the related Supplement. All Units can only be subscribed for by persons falling under the definition of Eligible Investors.

If the application for the subscription for Units is accepted, Units will be issued in respect of the applications received prior to 4:00 p.m. (Hong Kong time) on the last day of the Initial Offering Period.

An application for the subscription for Units shall consist of:-

- (i) the submission of a duly completed and signed Subscription Form (including supporting documents as required in the Subscription Form); and
- (ii) the deposit of cleared funds (in respect of the application) in the bank account as specified in the Subscription Form,

both of which must be received by the Trustee no later than before the close of the Initial Offering Period or such other day as the Manager may determine in its discretion. Applications received after such time will be treated as an application for the following Dealing Day. The Manager has the discretion to accept applications or deposits of cleared funds received after the close of the Initial Offering Period. Once a completed subscription application is received by the Trustee, the application becomes irrevocable on the part of the applicant except with the consent of the Manager.

In relation to the Subscription Form, this can be sent to the Trustee in original, copy by way of facsimile or through other means as determined by the Manager or the Trustee from time to time, failing which the Manager may determine whether to:

- (i) process the application as if it were made during the Initial Offering Period;
- (ii) process the application as if it were an application made on a Dealing Day following the day on which such application is received; or
- (iii) without prejudice to the Manager's right to reject an application for any reason (as provided below), reject such application and return the subscription monies in accordance with the sub-section entitled "Rejected applications" below in relation to a rejected application.

Neither the Manager nor the Trustee accepts responsibility for any loss arising from the non-receipt or illegibility of any Subscription Form or for any loss caused in respect of any action taken as a consequence of the Subscription Form received by facsimile or other means and believed in good faith to have originated from properly authorised persons.

Applications for subscriptions for Units may also be placed with an Authorised Distributor or through electronic or other authorised means as determined by the Manager from time to time. Such applications may have different dealing procedures, for example, earlier

application or payment cut-off times. Applicants who intend to subscribe for Units by placing applications with an Authorised Distributor or through electronic or other authorised means should consult the relevant Authorised Distributor or the Manager to find out the applicable dealing procedures.

- (b) ***Subscription procedures on a Dealing Day:*** Following the close of the Initial Offer Period for a Sub-Fund, Units attributed to that Sub-Fund will be available for subscription at the Subscription Price on each Dealing Day. All Units can only be subscribed for by persons falling under the definition of Eligible Investors.

If the application for the subscription for Units is accepted, Units will be issued for the relevant Dealing Day in respect of such application.

An application for the subscription for Units shall consist of:-

- (i) the submission of a duly completed and signed Subscription Form (including supporting documents as required in the Subscription Form); and
- (ii) the deposit of cleared funds (in respect of the application) in the bank account as specified in the Subscription Form,

both of which must be received by the Trustee no later than the Dealing Deadline on a Dealing Day. Applications received after such time will be treated as an application for the following Dealing Day. The Manager has the discretion to accept applications or deposits of cleared funds received after the Dealing Deadline. Once a completed subscription application is received by the Trustee, the application becomes irrevocable.

In relation to the Subscription Form, this can be sent to the Trustee in original or copy by way of facsimile or through other means as determined by the Manager or the Trustee from time to time, failing which the Manager may determine whether to:

- (i) process the application as if it were an application made on a Dealing Day following the day on which such application is received; or
- (ii) without prejudice to the Manager's right to reject an application for any reason (as provided below), reject such application and return the subscription monies in accordance with the sub-section entitled "Rejected applications" below in relation to a rejected application.

Applications for subscriptions of Units may also be placed with an Authorised Distributor or through electronic or other authorised means as determined by the Manager from time to time. Such applications may have different dealing procedures, for example, earlier application or payment cut-off times. Applicants who intend to subscribe for Units by placing applications with an Authorised Distributor or through electronic or other authorised means should consult the relevant Authorised Distributor or the Manager to find out the applicable dealing procedures.

Neither the Manager nor the Trustee accepts responsibility for any loss arising from the non-receipt or illegibility of any Subscription Form or for any loss caused in respect of any action taken as a consequence of the Subscription Form received by facsimile or other means and believed in good faith to have originated from properly authorised persons.

- (c) **Closing of subscription:** Applications for subscription for Units in a Sub-Fund will not be accepted if the Net Asset Value of the Sub-Fund is equal to or exceeds a certain value (if any) as specified in the relevant Supplement.
- (d) **Minimum subscription and holding amount:** The amount for Minimum Initial Subscription (if any) for each applicant and Minimum Subsequent Subscription and Minimum Holding (if any) by each Unitholder in respect of a Sub-Fund shall be the amount as specified in the relevant Supplement.
- (e) **Payment of subscription monies:** Units will, unless the Manager otherwise determines, be issued if the relevant subscription monies have been received in cleared funds within four (4) Business Days following the relevant Dealing Day. If payment is not cleared within four (4) Business Days following the relevant Dealing Day, the Manager reserves the right to cancel the Units issued. In such circumstances, the applicant will be required to pay any bank charges and disbursements in connection with the cancellation. The applicant is responsible for providing the relevant payment proof to the Trustee.

Subscription monies must be paid in the Class Currency of the relevant class of Units or in other currency acceptable to the Manager after consultation with the Trustee. Subscription monies received in a currency other than such Class Currency will, at the entire risk of the applicant with respect to any loss which the fluctuation of currency exchange rates may cause, be converted into such Class Currency at such rates and otherwise on such terms as the Trustee may convert and all bank charges and other conversion costs will be deducted from the subscription monies for the purposes of calculating the number of Units that will be issued.

All monies for the subscription of Units must originate from an account held in the name of the applicant. No third party payments are permitted.

Unless the applicant has made arrangements with the Trustee to make payment by some other method, payment can be made in one of the following methods:-

- (i) by direct deposit;
- (ii) by cheque;
- (iii) by banker's draft; or
- (iv) by telegraphic transfer (details as set out in the Subscription Form).

In relation to payment by cheques and banker's drafts, these should be crossed "a/c payee only, non-negotiable" and made payable to "BOCI-Prudential Trustee Limited" and stating the name of the Sub-Fund whose Units are being subscribed for. Since payment by cheque may cause delay in receipt of cleared funds, Units will not be issued until the cheque is cleared. Any fees and charges in connection with the payment of money for subscription will be borne by the applicant.

In relation to payment of subscription monies in Hong Kong, no money should be paid to any intermediary in Hong Kong which is not licensed or registered to carry on type 1 regulated activity under Part V of the SFO.

- (f) **Subscription Fee:** In relation to a Sub-Fund, a Subscription Fee may be imposed in relation to the subscription for Units as disclosed in the relevant Supplement. The Subscription Fee

may be retained by the Manager, the Authorised Distributors or their agents or distributors as the Manager shall determine.

- (g) **Other charges:** An applicant is liable to pay, where applicable, stamp duty and any other governmental taxes and charges payable with respect to the issue of Units attributed to the Sub-Fund whose Units the applicant is subscribing for.
- (h) **Determination of the number of Units to be issued:** In relation to an application for the subscription for Units on a Dealing Day, the number of Units that will be issued to the applicant shall be determined by the net amount of subscription monies received divided by the Subscription Price, rounded to the nearest four (4) decimal places (for the avoidance of doubt, if the fifth decimal place is equal to or greater than RMB0.00005, then the number will be rounded up to the nearest fourth decimal place, but if such fifth decimal place is less than RMB0.00005, the number will be rounded down to the nearest fourth decimal place), with any benefit as a result of such rounding adjustment to be retained for the account of the Sub-Fund.
- (i) **Issuance of Units:** Units will be issued in registered form only. No certificates will be issued. A confirmation notice will be sent as soon as practicable to successful applicants on acceptance of their application. Units will be issued in four (4) decimal places (see (h) above in relation to determining the number of Units to be issued).

Units representing smaller than four (4) decimal places will be retained for the benefit of that Sub-Fund.

Units in relation to a Sub-Fund will not be issued during any period when the determination of the Net Asset Value of that Sub-Fund to such class of Units is suspended (for details see the section entitled "VALUATION AND PRICES").

- (j) **Rejected applications:** The Manager reserves the right to reject any application for the subscription for Units in whole or in part.

For whatever reason, in the event that any application is not accepted in whole or in part, the subscription monies or (where an application is accepted in part only) the balance of such subscription monies will be returned without interest in the Class Currency of the relevant class of Units at the expense of the applicant by telegraphic transfer to the originating account.

## 10.2 Redemption of Units

- (a) **Request for redemption:** Units may be redeemed on any Dealing Day at the request of the Unitholder.

Each redemption request must be made on the Redemption Form and can be sent to the Trustee in original, copy by way of facsimile or through other means as determined by the Manager or the Trustee from time to time. In order for a redemption request to take effect on a particular Dealing Day, the Redemption Form must be received by the Trustee no later than the Dealing Deadline on a Dealing Day. Unless otherwise accepted by the Manager at its sole discretion, redemption requests received after such time will be processed on the following Dealing Day.

None of the Manager or the Trustee accepts responsibility for any loss arising from the non-receipt or illegibility of any Redemption Form or for any loss caused in respect of any action

taken as a consequence of a Redemption Form received by facsimile and believed in good faith to have originated from properly authorised persons.

In relation to a redemption request, the redeeming Unitholder must specify on the Redemption Form the number of Units to be redeemed or the nominal amount to be redeemed (see sub-section entitled "Determination of the amount of redemption proceeds" below).

Where a Unitholder has been issued Units of a class at different times and subsequently makes a partial redemption, Units of that class shall be redeemed on a "first issued, first redeemed" basis, unless otherwise stated by the Unitholder on the Redemption Form.

Requests for redemptions of Units may also be placed with an Authorised Distributor or through electronic or other authorised means as determined by the Manager from time to time. Such requests may have different dealing procedures, for example, earlier request cut-off time. Applicants who intend to redeem Units by placing requests with an Authorised Distributor or through electronic or other authorised means should consult the relevant Authorised Distributor or the Manager to find out the applicable dealing procedures.

- (b) **Minimum redemption amount:** The amount for Minimum Redemption (if any) by each Unitholder in respect of a Sub-Fund shall be the amount as specified in the relevant Supplement.
- (c) **Compulsory redemption below the Minimum Holding:** In the event that a request for redemption is received from a Unitholder which would reduce its holding of Units in the Sub-Fund below the Minimum Holding (if any) specified in the Supplement, the Manager may refuse to accept such redemption request or may deem it a request for redemption of all Units held by such Unitholder in the Sub-Fund, unless otherwise determined by the Manager.
- (d) **Redemption Fee:** In relation to a Sub-Fund, a Redemption Fee may be imposed in relation to a redemption of Units by the Unitholders as disclosed in the relevant Supplement. The Redemption Fee may be retained for the benefit of the Manager.
- (e) **Other redemption charges:** A redeeming Unitholder is liable to pay, where applicable, stamp duty and any other governmental taxes and charges payable with respect to the redemption of Units attributed to the Sub-Fund and other fiscal and sale charges which the Manager determines to be necessary.
- (f) **Calculation of the amount of redemption proceeds:** The amount of redemption proceeds that a Unitholder receives will be calculated in accordance with the following:-
  - (i) (if a Unitholder elects to redeem Units by specifying the number of Units to be redeemed in the Redemption Form) the Unitholder will receive an amount equal to the number of Units specified in the Redemption Form multiplied by the Redemption Price, rounded to the nearest two (2) decimal places (for the avoidance of doubt, if the third decimal place is equal to or greater than RMB0.005, then the amount will be rounded up to the nearest second decimal place, but if such third decimal place is less than RMB0.005, the amount will be rounded down to the nearest second decimal place) with any benefit as a result of such rounding adjustment to be retained for the account of the Sub-Fund; and
  - (ii) (if a Unitholder elects to redeem Units by specifying the amount of redemption proceeds it wishes to receive) the Unitholder will receive such proceeds (provided

that there are adequate Units in the Unitholder's holding) and the number of Units that will be deducted from that Unitholder's holdings in the Register will be equal to such amount of redemption proceeds divided by the Redemption Price, rounded to the nearest two (2) decimal places (for the avoidance of doubt, if the third decimal place is equal to or greater than RMB0.005, then the amount will be rounded up to the nearest second decimal place, but if such third decimal place is less than RMB0.005, the amount will be rounded down to the nearest second decimal place) with any benefit as a result of such rounding adjustment to be retained for the account of the Sub-Fund, in each case, less any Redemption Fee and other redemption charges.

- (g) ***Payment of redemption proceeds:*** Redemption proceeds will be paid in the Class Currency of the relevant class of Units and, except where the redeeming Unitholder gives alternative payment instructions in the Redemption Form if permitted by the applicable laws and regulations, will be paid by telegraphic transfer at the cost and risk of the redeeming Unitholder to the same bank account which the subscription proceeds were paid from unless otherwise instructed by the redeeming Unitholder and agreed by the Trustee. Unless otherwise as disclosed in the Supplement, payment will be made within one (1) calendar month after the relevant Dealing Day provided that the Trustee receives the duly completed and signed Redemption Form. Unitholders should note that the signature on the Redemption Form will require verification to the satisfaction of the Trustee before payment will be made. Redemption proceeds will not be paid to any party other than the redeeming Unitholder.
- (h) ***Limitation on redemption requests:*** With a view to protecting the interests of Unitholders of a Sub-Fund, the Manager may limit the number of Units which can be redeemed on any Dealing Day. Such limit will be 10% of the total number of Units in issue. In that event, the limit will apply *pro rata* so that any Unitholder wishing to redeem Units on that Dealing Day redeems the portion of such Units that is pro rated to all redemptions received in relation to such Units on that Dealing Day. Redemption requests in respect of all Units not redeemed but which would otherwise have been redeemed on that Dealing Day together with all redemption requests subsequently received will be carried forward to the following Dealing Day (or such earlier day as the Manager may determine), whereupon all Units the subject of such redemption requests will (subject to the same limit specified above and priority as provided below) be redeemed. If redemption requests are carried forward, Unitholders redeeming on the following Dealing Day will be informed that priority will be given to those redemption requests which have been carried forward (in accordance with the length of time for which they have been carried forward), on a "first applied, first redeemed" basis.
- (i) ***Suspension on redemption:*** No redemption of Units attributed to a Sub-Fund may be effected during the period of any suspension of calculation of the Net Asset Value for that Sub-Fund (for details see the section entitled "VALUATION AND PRICES").
- (j) ***Compulsory redemption:*** The Manager has the right to compel a Unitholder to a full redemption if in the sole and conclusive opinion of the Manager such Unitholder is not an Eligible Investor or in any such other circumstances as are set out in the Trust Deed.

### 10.3 Transfer of Units

No Units may be transferred, assigned or disposed of without the prior written consent of the Trustee and the Manager which may be withheld in their absolute discretion. Subject to the above, the Units are transferable by a written instrument (in the form as prescribed by or acceptable to the Trustee) signed by the transferor and the transferee and duly stamped (if applicable) before sending to the

Trustee, provided that no transfer of part of a holding of Units of any class shall be registered if in consequence of such transfer, either the transferor or the transferee would be the Unitholder of less than the Minimum Holding. All transfers will not be effective until registered in the Register. Unitholders who wish to transfer Units must complete and sign the transfer instrument in the exact name or names in which Units are registered, indicating any special capacity in which they are signing and supply the details to the Trustee. In addition, if the transferee of the Units is not an existing Unitholder, such transferee must submit to the Trustee a duly completed and signed Subscription Form and all supporting documentation as specified in the Subscription Form (additional documentation may be further required by the Trustee or the Manager) and payment of an administration fee to the Trustee.

In the case of the death of a joint Unitholder the survivor will be the only person recognised by the Trustee as having any title to the Units.

The transferor and the transferee shall be jointly and severally liable for all expenses incurred by the Trustee in connection with the transfer.

The transfer of a Unit to a person that is not an Eligible Investor is prohibited.

The Manager may in its absolute discretion decline to register any transfer of Units without giving any reason for doing so.

The Manager shall not give its consent to the transfer of Units if, as a result of such transfer, a person which does not fulfil the above sales restrictions or is not an Eligible Investor would become a Unitholder.

#### **10.4 Conversion of Units between different Sub-Funds**

Unitholders of a Sub-Fund may on any Dealing Day convert some or all of their Units in a Sub-Fund into Units in another Sub-Fund, provided that the Class Currency of Units in both of the Sub-Funds are the same, subject to a conversion fee as set out in each Supplement.

Conversion requests duly made cannot be withdrawn without the consent of the Manager.

Unless otherwise specified in the relevant Supplement, requests for conversion should be received by the Trustee no later than the Dealing Deadline on a Dealing Day. Conversion of Units will be effected by the redemption of Units in a Sub-Fund (except that the redemption proceeds will not be released to the applicant) and the subscription for Units in a new Sub-Fund. Such redemption will take place on the Dealing Day. In relation to the subscription for Units in a new Sub-Fund, this will take place on the Dealing Day, provided that the redemption of Units has taken place (whether on the same day or previously), and will be made in accordance with the terms as set out in the sub-section entitled "SUBSCRIPTION FOR UNITS" above.

## SECTION 11

### VALUATION AND PRICES

The Net Asset Value of a Sub-Fund and the Net Asset Value per Unit shall be calculated in the Base Currency at each Valuation Point in accordance with the Trust Deed by the Trustee.

#### 11.1 Valuation of assets

The Trust Deed provides that the assets will be valued as follows:-

- (a) The value of any investment (other than an interest in a collective investment scheme or commodity) shall be calculated by reference to the price appearing to the Manager to be the last traded price or (if no last traded price is available) midway between the latest available market dealing offered price and the latest available market dealing bid price on the market on which the investment is quoted, listed or ordinarily dealt in for such amount of such Investment as the Manager may consider in the circumstances consider appropriate, provided that:
  - (i) If an investment is quoted, listed or normally dealt in on more than one market, the Manager shall adopt the price or, as the case may be, middle quotation on the market which, in its opinion, provides the principal market for such Investment.
  - (ii) In the case of any investment which is quoted, listed or normally dealt in on a market but in respect of which, for any reason, prices on that market may not be available at any relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee.
  - (iii) There shall be taken into account interest accrued on interest-bearing investments up to (and including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price.

In determining such prices, the Manager and the Trustee shall be entitled to use and rely on, without verification, electronic price feeds from such source(s) as they may from time to time determine notwithstanding the prices used may not be the last traded prices.

- (b) The value of any investment (other than an interest in a collective investment scheme or commodity) which is not quoted listed or ordinarily dealt in on a market shall be the initial value of the investment ascertained as hereinafter provided or the value of the investment as assessed on the latest revaluation of the investment made in accordance with the provisions hereinafter contained. For this purpose:
  - (i) The initial value of an unquoted investment (other than an interest in a collective investment scheme or commodity) shall be the amount expended out of the relevant Sub-Fund in the acquisition of the investment (including in each case the amount of the stamp duties, commissions and other expenses incurred in the acquisition and the vesting of the investment in the Trustee).
  - (ii) The Manager may at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request cause a revaluation to be made of any unquoted investment (other than an interest in a collective investment scheme

or commodity) by a professional person (including the Manager or any Connected Person of the Manager) approved by the Trustee as qualified to value such unquoted investment.

- (c) Cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, with the approval of the Trustee, any adjustment should be made to reflect the value of such investments.
- (d) The value of any commodity shall be ascertained in such manner as the Manager, with the approval of the Trustee, shall think fit, but so that:-
  - (i) if such commodity is dealt in on any recognised commodities market, then the Manager shall, in ascertaining the value of such commodity, have regard to the latest ascertainable price ruling or officially fixed in respect of such investment on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager shall consider appropriate;
  - (ii) if any such price as referred to in subparagraph (i) above is not reasonably up-to-date (in the sole opinion of the Manager) or is not ascertainable at any relevant time, then the Manager shall, in ascertaining the value of the relevant commodity, have regard to any certificate as to such value provided by a firm or institution making a market in such commodity;
  - (iii) the value of any futures contract shall be:
    - (A) in the case of a futures contract for the sale of a commodity including a financial futures contract, the positive or negative amount equivalent to the contract value of the relevant futures contract (the **Relevant Futures Contract**) minus the sum of (I) the amount determined by the Manager to be the contract value of such futures contract as would be required to be entered into on behalf of the relevant Sub-Fund in order to close the Relevant Futures Contract, such determination to be based on the latest available price or (if bid and offered quotations are made) the latest available middle market quotation on the market in which the Relevant Futures Contract was entered into and (II) the amount expended out of the relevant Sub-Fund in entering into the Relevant Contract, including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith; and
    - (B) in the case of a futures contract for the purchase of a commodity, including a financial futures contract, the positive or negative amount equivalent to the amount determined by the Manager to be the contract value of such futures contract as would be required to be entered into on behalf of the relevant Sub-Fund in order to close the Relevant Futures Contract, such determination to be based on the latest available price or (if bid and offered quotations are made) the latest available middle market quotation on the market in which the Relevant Futures Contract was entered into minus the sum of (I) the contract value of the Relevant Futures Contract and the amount expended out of the relevant Sub-Fund in entering into the Relevant Contract, including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith; and

- (iv) if the provisions set out in paragraphs 11(d)(i) and (ii) above do not apply to any relevant commodity, then the Manager shall, in ascertaining the value of such commodity, have regard to the same factors which would have determined the value of such commodity pursuant to paragraph (b) above, if such commodity were an unquoted investment.
- (e) Subject as provided in paragraphs 11.1(f) and (g) below, the value of each unit, share or other interest in any collective investment scheme shall be (i) if such collective investment scheme is valued on the same day, the published net asset value per unit or share or (ii) if such collective investment scheme is not valued on the same day, the last published price for such unit or share at or immediately preceding the Valuation Point.
- (f) If no net asset value or bid price quotations are available as provided in paragraph 11.1(e) above, the value of such investment shall be determined from time to time in such manner as the Manager shall determine in its absolute discretion;
- (g) Notwithstanding paragraphs 11.1(a) to (f) (inclusive) above, the Manager may with the consent of the Trustee adjust the value of any investment or permit some other method of valuation to be used if, having regard to currency, applicable rate of interest, maturity, marketability of such investment, accounting treatment for such investment, the estimated market price of such investment as at the Valuation Point and other considerations it deems relevant, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of such investment.
- (h) Property other than Investments and cash shall be valued in such manner and at such time or other times as the Manager and the Trustee shall from time to time agree.

## **11.2 Separate Class Accounts**

Under the Trust Deed, the Manager shall have the power to establish and maintain, with respect to any class of Units, a class account (a **Separate Class Account**), to record (purely as an internal accounting matter) the allocation, on a differentiated basis, of the assets and liabilities of the Sub-Fund to the Unitholders of any such class.

The proceeds from the issue of Units of any class shall be applied in the books of the Sub-Fund to the Separate Class Account established for Units of that class. The assets and liabilities and income and expenditure attributable to that Separate Class Account shall be applied to such Separate Class Account and, subject to the provisions of the Trust Deed, to no other Separate Class Account. In the event that the assets attributed to a Separate Class Account referable to any class are exhausted, any and all rights which any Unitholders referable to that class have against the Sub-Fund (in respect of an amount up to the amount of such assets) shall be extinguished and the Unitholders referable to that class shall have no recourse against the assets attributed to any other Separate Class Account established by the Sub-Fund or, for the avoidance of doubt, of any other Sub-Fund.

## **11.3 Net Asset Value of a Sub-Fund**

The Net Asset Value of a Sub-Fund will be equivalent to all assets of the Sub-Fund less all liabilities attributable to such Sub-Fund and will be calculated as at each Valuation Point, or such other time on such day or days as the Manager or the Trustee may from time to time prescribe.

#### 11.4 Net Asset Value per Unit

The Net Asset Value per Unit is calculated by dividing the Net Asset Value of a Sub-Fund by the number of Units in issue in such Sub-Fund as at the relevant Valuation Point (prior to the recording of any subscriptions or redemption of the Units that will be calculated based on the Net Asset Value as of such Valuation Point), the result being rounded to the nearest two (2) decimal places (for the avoidance of doubt, if the third decimal place of the Net Asset Value is equal to or greater than RMB0.005, then the Net Asset Value will be rounded up to the nearest second decimal place, but if such third decimal place is less than RMB0.005, the Net Asset Value will be rounded down to the nearest second decimal place). Any benefit (or loss) of such rounding adjustment will be retained for the account of the Sub-Fund.

If different classes exist in a Sub-Fund, the Net Asset Value per Unit of a particular class relating to the Sub-Fund will be calculated in accordance with the following formula:

$$A/B \times C$$

where: A = the Net Asset Value attributed to the relevant class of Units in the Sub-Fund (as appeared in the Separate Class Account relevant to that class of Units in the Sub-Fund)

B = the number of Units of the relevant class in the Sub-Fund

C = (if applicable) the currency conversion factor determined by the Manager for the relevant Valuation Day as representing the effective rate of exchange between the Base Currency of the Sub-Fund and a Class Currency of the relevant class of Units in the Sub-Fund

#### 11.5 Determination of Subscription Price and Redemption Price

(a) **Subscription Price:** The Subscription Price is an amount equals to the Net Asset Value per Unit.

(b) **Redemption Price:** The Redemption Price is an amount equals to the Net Asset Value per Unit.

#### 11.6 Suspension of determination of the Net Asset Value

The Manager may, after giving notice to the Trustee, declare a suspension of the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:-

(a) there is a closure of or the restriction or suspension of trading on any commodities market, or securities market on which a substantial part of the investments of the relevant Sub-Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments;

(b) for any other reason the prices of investments held or contracted for by the Manager for the account of that Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly or fairly be ascertained;

(c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments held or contracted for the account of that Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the relevant class;

- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of that Sub-Fund or the subscription for or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange;
- (e) either the Manager or the Trustee has resolved or given notice to terminate that Sub-Fund; or
- (f) in the opinion of the Manager, such suspension is required by law or applicable legal process.

A suspension shall take effect forthwith upon the declaration of such suspension. Upon such declaration, there will be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager declares the suspension is lifted. The day on which the suspension is lifted shall be the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

No Units in the relevant Sub-Fund may be issued, redeemed or switched during a period of suspension.

Whenever the Manager declares a suspension, it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in the South China Morning Post and the Hong Kong Economic Journal in relation to the suspension.

## **SECTION 12**

### **ACCOUNTS AND REPORTS**

The annual audited financial statements of the Trust (which include audited financial statements for all Sub-Funds) will be made up to 31 December of each year and will be made available and distributed to the Unitholders within four (4) months from such date. The first annual audited financial statement was made up to the period ending on 31 December 2012. The annual audited financial statements will be prepared in accordance with IFRS.

The Trust will also have semi-annual unaudited interim financial statements, i.e. financial statements made up to 30 June of each year, which will be made available and distributed to the Unitholders within two (2) months of from the end of each such date. The first semi-annual unaudited interim financial statement was made up to the period ending on 30 June 2012.

The annual audited and semi-annual unaudited interim financial statements will be published in English and Chinese.

The Manager may in future decide not to send printed financial reports to each Unitholder but make available of such reports electronically. In such event, the Manager will give not less than one (1) month prior notice to Unitholders. Unitholders will also be notified of any changes to the means of getting access to the financial reports as and when the financial reports are available, and where printed copies of the financial reports can be obtained or make available upon request.

## SECTION 13

### TAXATION

Investors should inform themselves of and, where appropriate, consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding or redeeming Units under the laws of their country of citizenship, domicile or residence. None of the Trust, the Manager or any of their respective affiliates accepts any responsibility for providing tax advice to any prospective investors.

#### 13.1 Hong Kong taxation of a Sub-Fund

During such period, if a Sub-Fund is authorised by the SFC as a collective investment scheme pursuant to section 104 of the SFO, then under Hong Kong law, the profits generated by the Sub-Fund will be exempted from profits tax in Hong Kong.

In the case that a Sub-Fund is not authorised by the SFC as a collective investment scheme pursuant to section 104 of the SFO, the profits generated by the Sub-Fund will not be specifically exempted from Hong Kong profits tax. In such circumstance, the Trust in respect of the profits generated by such Sub-Fund is chargeable to Hong Kong profits tax (currently at the rate of 16.5%) in the name of the Trustee if the profits are Hong Kong-sourced and revenue in nature.

Hong Kong profits tax should not be payable in respect of profits of a non-Hong Kong source. For example, trading profits from the purchase and sale of listed shares and other securities effected through exchanges outside Hong Kong, purchase and sale of securities over-the-counter where the contracts of purchase and sale are negotiated and concluded outside Hong Kong, interest arising or derived from outside Hong Kong should be considered as non-Hong Kong sourced profits and would not be subject to Hong Kong profits tax.

Hong Kong profits tax is also not payable on profits derived from capital assets. However, a capital gain claim is contentious for an investment fund whose business is trading in securities, and is subject to the agreement of the Inland Revenue Department.

#### 13.2 Hong Kong taxation of Unitholders

There is no withholding tax on dividends and interest in Hong Kong.

For Unitholders where the Units in the Trust represent capital assets to them for Hong Kong profits tax purpose, gains arising from the sale or other disposal or redemption of the Units in the Trust should be capital in nature and not taxable. For Unitholders carrying on business in Hong Kong and also invests in securities for trading purpose (for example dealers in securities, financial institutions, insurance companies, etc), such gains may be considered to be part of the Unitholder's normal business profits and in such circumstances may be subject to Hong Kong profits tax (which is currently charged at the rate of 16.5% in the case of corporations, and 15% in the case of individuals) if the gains in question arise in or are derived from Hong Kong.

Distributions by the Trust should generally not be subject to Hong Kong profits tax in the hands of Unitholders (whether by way of withholding or otherwise).

#### 13.3 Stamp duty

Allotment of Units in the Trust is not subject to stamp duty in Hong Kong.

Purchase and sale of Units should be subject to Hong Kong stamp duty at 0.2% of the higher of the considerations or market value of the Units (to be equally borne by the buyer and seller).

No Hong Kong stamp duty is payable where the sale or transfer of Units is effected by selling the Units back to the Manager, who then either extinguishes the Units or resell the Units to another person within two (2) months thereof.

#### 13.4 FATCA

The Foreign Account Tax Compliance Act ("**FATCA**") enacted by the United States strengthens the information reporting and compliance regimes with respect to US Persons who have financial assets outside of the US or who have accounts with non-US financial institutions.

Under FATCA, a non-US fund ("**Non-US Fund**") with certain characteristics that causes it to be classified as a foreign financial institution ("**FFI**") under FATCA and that invests directly or indirectly into the US, will be subject to a withholding tax of 30% on (i) certain payments to the Non-US Fund of US source income, including US source fixed and determinable annual periodical income ("**FDAP**") (e.g., dividends and interest), (ii) beginning 1 January 2017, gross proceeds from the sale or disposition of property that can produce US source interest or dividends (Clauses (i) and (ii) collectively, "**Withholdable Payments**"), and (iii) beginning no earlier than 1 January 2017, certain payments of non-US source income paid by other FFIs unless the FFI enters into an agreement ("**FFI agreement**") with the US Internal Revenue Service ("**IRS**") or, alternatively, complies with the terms of an intergovernmental agreement ("**IGA**") with the United States, where applicable.

Generally, the FFI agreement and IGAs require the Non-US Fund to agree to perform due diligence and report certain information on its US account holders to obtain an exemption from FATCA withholding tax on payments it receives and/or comply with legislation implementing an IGA. To avoid being subject to this US federal withholding tax, the investors in the Non-US Fund may be required to provide certain documentation to certify their status and the status of their debt or equity holders or account holders as a US or non-US Person. The Non-US Fund may be unable to satisfy its reporting obligations (including, if the Non-US Fund cannot collect the requisite information from some or all of the investors) and as a result, payments received by the Non-US Fund may be subject to withholding in respect of FATCA, and subsequently, a portion of payments from the Non-US Fund made to those investors, who do not provide the necessary information to the Non-US Fund, may be (subject to FATCA final regulation) subject to a 30% FATCA withholding tax.

In order to comply with FATCA, the Trust and the Sub-Funds have registered with the IRS as a participating FFI and Unitholders and prospective investors may be required to provide mandatory documentary evidence of their tax residence and certain other information to the Manager, the Trustee and/or the relevant Authorized Distributors. An IGA Model 2 between Hong Kong and the US has in substance been agreed on 9 May 2014, it is expected the formal agreement will be signed by the end of 2014.

To the extent the Trust and the Sub-Funds suffer US withholding tax on their investments as a result of the failure by an investor to comply with the requirements under FATCA or the relevant IGA, the Manager may take any action and/or pursue all remedies at its disposal including, without limitation, (i) making deduction or withholding before making any distribution or other payments to the Unitholders whose failure to provide the necessary information or comply with such requirements gave rise to the deduction or withholding; (ii) compulsorily redeem the non-compliant Unitholders' interests in the Trust or Sub-Fund, in each case; or (iii) reporting information of the relevant Unitholders to regulatory bodies and authorities, subject to applicable laws and regulations and provided that the Manager acts in good faith and on reasonable grounds. However, the Manager will not require the relevant Unitholders to transfer their Units to other persons notwithstanding Clause

9(h) of the Trust Deed. If the Trust and the Sub-Funds become subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may be affected and the Trust and the Sub-Funds may suffer material losses. Each prospective investor should consult their own tax advisor regarding application of FATCA to this investment and the documentation that may need to be provided to the Trust.

## SECTION 14

### FURTHER INFORMATION

#### 14.1 Meetings of Unitholders

Meetings of Unitholders in relation to a Sub-Fund may be convened by the Trustee or the Manager, or by a requisition of Unitholders. A Unitholders' requisition is a requisition of Unitholders of a Sub-Fund holding at the date of deposit of the requisition not less than 10% in Net Asset Value of the Units as at that date which carry the right to vote at meetings of that Sub-Fund. Unitholders will be given not less than 21 days' notice of any meeting.

#### 14.2 Voting and quorum

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an Extraordinary Resolution. The quorum for passing an Extraordinary Resolution shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If, within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. Voting on any Extraordinary Resolution is by way of poll, i.e. every Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders, the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register.

#### 14.3 Modifications to the Trust Deed, the Offering Memorandum or a Supplement

The Trustee and the Manager may (without the sanction of an Extraordinary Resolution) modify, alter or add to or replace the provisions of the Trust Deed, the Offering Memorandum or a Supplement if the modification, alteration or addition proposed to be made (and provided that the Trustee certifies in writing of the same):-

- (a) does not materially prejudice the interests of the Unitholders; does not operate to release to any material extent the Trustee or the Manager from any responsibility to the Unitholders, and will not result in any increase in the amount of costs and charges payable from the Trust's assets; or
- (b) is necessary in order to make possible compliance with any fiscal, statutory or official requirement (whether or not having the force of law); or
- (c) is to be made to correct a manifest error.

No other modification, alteration, or addition or replacement shall be made without the sanction of an Extraordinary Resolution of Unitholders.

In cases where the modification, alteration, addition or replacement is one which requires the SFC's prior approval under the UT Code, such modification, alteration, addition or replacement shall only be made upon obtaining the SFC's approval and, unless otherwise required in the Trust Deed.

The Manager shall inform Unitholders as soon as reasonably practicable, unless there is a specified minimum prior notice period in the UT Code, of any modification or alteration of or addition to the provisions of the Trust Deed, the Offering Memorandum or a Supplement which is necessary to enable Unitholders to appraise the position of the Trust and the relevant Sub-Fund.

#### **14.4 Termination**

The Trust and each of the Sub-Funds shall continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trust may be terminated by the Trustee in written notice, provided that the Trustee shall certify that in its opinion the proposed termination is in the interest of Unitholders, if one of the following occurs:-

- (a) if the Manager goes into liquidation (except a voluntary liquidation for the purposes of reconstruction or amalgamation), becomes bankrupt or if a receiver is appointed over any of their assets and not discharged within 60 days;
- (b) if, in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily or 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;
- (c) in the event of a substantial change in the political, economic or monetary situation, or in the framework of an economic restructuring;
- (d) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust;
- (e) within 30 days of the Manager leaving office, where no new manager is appointed; or
- (f) no new trustee is appointed within six (6) months of the Trustee giving notice of its desire to retire.

The Trust and/or any of the Sub-Funds (including a class of a Sub-Fund, where applicable) may be terminated by the Manager on notice in writing if:-

- (a) on any date, in relation to a Sub-Fund, the aggregate Net Asset Value of all Units outstanding in relation to the Sub-Fund is less than US\$4,000,000 (or equivalent in RMB or such other Base Currency);
- (b) in the opinion of the Manager, it is impracticable or inadvisable to continue a Sub-Fund and/or any class of Units of a Sub-Fund (as the case may be) (including without limitation, a situation where it is no longer economically viable to operate the Sub-Fund);
- (c) in the event of a substantial change in the political, economic or monetary situation, or in the framework of an economic restructuring; or
- (d) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Trust or a Sub-Fund.

In cases of termination on notice, no less than one (1) month's notice will be given to Unitholders by the terminating party.

In addition, a Sub-Fund or a class of a Sub-Fund may be terminated by an Extraordinary Resolution of the Unitholders of that Sub-Fund or the Unitholders of that class (as the case may be) on such date as the Extraordinary Resolution may provide.

## **14.5 Register**

The following shall be entered in the Register:-

- (a) the names and addresses of the Unitholders;
- (b) the number and class of Units held by each Unitholder;
- (c) the date on which the name of each Unitholder was entered in respect of the Units standing in his name and (where a person became a Unitholder by virtue of an instrument of transfer) a reference sufficient to enable the name and address of the transferor to be identified;
- (d) the date on which any transfer is registered and the name and address of the transferee; and
- (e) the date on which any Units are cancelled pursuant to the provisions of the Trust Deed.

The Register shall be conclusive evidence as to the persons entitled to the Units entered therein.

The Unitholder shall be the only person to be recognised by the Trustee or by the Manager as having any right, title or interest in or to Units registered in his name and the Trustee and the Manager shall not be bound by any notice to the contrary and shall not be bound to take notice of or to enter any notice on the Register of or to see to the execution of any trust (whether express, implied or constructive) or, save as expressly provided in the Trust Deed or save as by some court of competent jurisdiction ordered, to recognise any trust or equity or other interest affecting the title to any Units.

## **14.6 Auditor's liability**

PricewaterhouseCoopers has been appointed as the Auditor to the Trust and will conduct their audits in accordance with International Standards of Auditing. Under the standard terms of the annual engagement letter in relation to the Trust, the Auditor's liability is expected to be capped based upon a multiple of fees payable to the Auditor, except to the extent finally determined to have resulted from the wilful misconduct or fraudulent behaviour by the Auditor. The annual engagement letter is also expected to contain a limitation of any liability to the Auditor's proportionate share thereof and other release and indemnity provisions relating to consequential loss, third party claims and fraudulent acts or omissions or misrepresentations on the part of the Manager of the Trust. PricewaterhouseCoopers' audit reports may only be relied upon by those parties to whom they are addressed.

## **14.7 Tax adviser's liability**

The summary of Hong Kong and PRC tax implications of an investment in the Trust in this Offering Memorandum and the relevant Supplement is of a general nature only and is based on current law and practice and is subject to change at any time. It does not purport to be comprehensive and does not constitute legal or tax advice. PricewaterhouseCoopers Limited has no obligation to update the contents as law and practice change unless specifically requested to do so.

Whilst PricewaterhouseCoopers Limited understands that the summary will be made available to prospective investors and other parties, no duty of care or contractual relationship is established between PricewaterhouseCoopers Limited and a third party. Accordingly, PricewaterhouseCoopers Limited does not accept any liability to any person who relies on the summary. Prospective investors (particularly those subject to special tax rules such as bankers, insurance companies and tax-exempt entities) should consult their own tax advisers regarding the tax consequences of an investment in the Trust in light of their own particular circumstance.

## **14.8 Distributions**

In relation to a Sub-Fund, unless otherwise specified in the relevant Supplement, the Manager does not intend to make any distribution of dividends.

Distributions (if any) declared in respect of any period, interim accounting period or accounting period shall be distributed among the Unitholders of the relevant classes of Units rateably in accordance with the number of Units held by them on the record date in respect of such period, interim accounting period or accounting period, as the case may be.

Any payment of distributions will be made in the Class Currency (or such other currency as set out in the Supplement) of the relevant class of Units by direct transfer to the appropriate bank account, by cheque at the risk of the Unitholders or in such other manner as may be agreed with the Manager. No amount payable to a Unitholder in respect of any distribution shall bear interest. Any distribution which is not claimed for six (6) years will be forfeited and become part of the assets of the relevant Sub-Fund.

## **14.9 Anti-money laundering regulations**

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

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

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognised as having sufficient anti-money laundering regulations. The Manager and the Trustee nevertheless reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Manager or the Trustee may refuse to accept the application and the subscription moneys relating thereto and refuse to pay any redemption proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of funds.

## **14.10 Governing law**

All matters relating to the Trust shall be construed and enforced in accordance with the laws of Hong Kong. The Trustee, the Manager, the Unitholders and all relevant parties shall submit to the non-exclusive jurisdiction of the Hong Kong courts.

## **14.11 Material contracts**

Except for the Trust Deed, the Global Custodian Agreement and the RQFII Sub-Custodian Agreement, no other contracts (not being contracts in the ordinary course of business) have been or will be entered into in relation to the Trust and are, or may be, material.

#### **14.12 Documents available for inspection**

Copies of the following documents are available for inspection during normal business hours on any weekday (except Saturdays, Sundays and public holidays) in Hong Kong at the Manager's principal place of business (as set out in the section entitled "DIRECTORY"):-

- (a) the Trust Deed;
- (b) this Offering Memorandum and each of the Supplements;
- (c) the contracts having been entered into otherwise than in the course of ordinary business referred to in the sub-section "Material contracts" above;
- (d) any agreements between the Manager and third parties referred to in the Supplement (for the HuaAn Aggregate China Bond Fund and HuaAn Aggregate China Focus Bond Fund, agreements include the Global Custodian Agreement, the RQFII Sub-Custodian Agreement and the supplemental agreement to the RQFII Sub-Custodian Agreement); and
- (e) the audited annual reports of the Trust.

## SUPPLEMENT 1

### HUAAN AGGREGATE CHINA BOND FUND

This document is a "Supplement" as defined in the Offering Memorandum. The information contained in this Supplement supplements the information contained in the Offering Memorandum. This Supplement should only be read in conjunction with and as one document with the Offering Memorandum.

#### 1. Preliminary

HuaAn Aggregate China Bond Fund (the **Sub-Fund**) has been authorised by the SFC as an authorised collective investment scheme pursuant to section 104 of the SFO on 13 January 2012. SFC authorisation is not a recommendation or endorsement of HuaAn Aggregate China Bond Fund nor does it guarantee the commercial merits of HuaAn Aggregate China Bond Fund or its performance. It does not mean HuaAn Aggregate China Bond Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or classes of investors.

Except for the obtaining of authorisation from the SFC, no action has been taken to permit the distribution of this Supplement and the Offering Memorandum in any jurisdiction where action would be required for such purpose. Accordingly, no person receiving a copy of this Supplement and the Offering Memorandum (and also the Subscription Form) in any territory other than Hong Kong may treat the same as constituting an invitation to purchase or subscribe for Units nor should the Subscription Form be used unless in the relevant territory where such an invitation could lawfully be used without compliance with any registration or legal requirement.

**Prospective investors are advised that prior to making any subscription for Units, information set out in this Supplement (when read in conjunction with the Offering Memorandum) must be carefully considered.**

#### 2. Interpretation

In this Supplement:-

- (a) capitalised terms used but not otherwise defined in this Supplement have the meanings assigned to such terms in the Offering Memorandum, unless the context otherwise requires; and
- (b) references to **Business Day** are any day (other than a Saturday, Sunday or a public holiday) on which banks in Hong Kong and the PRC (excluding Hong Kong, Macau and Taiwan) are generally open for banking business or such other day as the Manager and the Trustee may from time to time determine, provided that where, as a result of an occurrence of a number 8 (or greater) typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on such day is reduced, such day shall not be a Business Day, unless the Manager otherwise determines.
- (c) references to **Units** and **Unitholders** are to Units and Unitholders referable to the Sub-Fund only;
- (d) references to **RQFII** are to the "Renminbi Qualified Foreign Institutional Investor", an eligible person that qualifies to invest in certain assets in the PRC under the relevant PRC laws and regulations and references to **RQFII Regulations** are to laws and regulations promulgated in the PRC which permit such investments in the PRC by the RQFII.

### 3. Investment objective and strategy and investment restrictions

(a) **Investment objective and strategy:** The investment objective of the Sub-Fund is to achieve long term capital growth and provide a steady flow of income through investment in a portfolio consisting primarily (not less than 80% of its Net Asset Value) of RMB denominated and settled fixed rate or floating rate debt instruments (**RMB-Denominated Debt Instruments**) by actively managing the risks of such portfolio. The RMB-Denominated Debt Instruments include the following, without limitation (as permitted by the RQFII Regulations from time to time):

- (i) short term bonds such as commercial paper and short term bills and notes (with maturity within one (1) year); and
- (ii) medium term and long term bonds (with maturity of three (3) to five (5) years for medium term bonds, and maturity of five (5) years or more for long term bonds); and
- (iii) convertible bonds,

which may be issued or distributed by governments and quasi-government organisations and multinational organisations, financial institutions and other corporations that are based or established within the PRC (through the quota (**RQFII Quota**) allocated to the Manager as RQFII by the State Administration of Foreign Exchange (**SAFE**) under the RQFII Regulations) in the interbank market and/or the exchange-traded market.

The Sub-Fund will only be investing in those RMB-Denominated Debt Instruments that are subject to the following requirements on credit rating:

- (i) in relation to RMB-Denominated Debt Instruments issued or distributed in the PRC interbank market, such instruments and/or their issuers that are generally “rated” by a major PRC local credit rating agency in the market (for example, corporate bonds), a minimum credit rating of BBB- or above issued by any one of major PRC local credit rating agencies; and
- (ii) in relation to RMB-Denominated Debt Instruments issued or distributed in the PRC exchange-traded market, any debt instruments that are listed for trading in the PRC exchange-traded market.

The Sub-Fund may invest (not more than 20% of its Net Asset Value) in RMB denominated and settled equities or equity related securities (mainly China A-shares) in the PRC (through the RQFII Quota allocated to the Manager) with any remainder held in RMB denominated cash or cash equivalents in the PRC.

Each instrument in the portfolio of the Sub-Fund will be selected based on extensive fundamental research. Subject to the above asset allocation, the Manager will adjust the allocation of investment among debt instruments, equities or equity related securities and cash or cash equivalents to seek better risk adjusted returns among various investment instruments.

(b) **Investment restrictions:** Investments in the Sub-Fund are subject to the above investment policy and restrictions set out below and the investment restrictions applicable to the Sub-Fund, as set out in the Offering Memorandum.

The Sub-Fund will not invest in RMB-Denominated Debt Instruments which are rated BB+ or below by any one of major PRC local credit rating agencies or unrated. The rating of each RMB-Denominated Debt Instrument should be the credit rating of the instrument itself. If the instrument itself does not have a credit rating, the credit rating would be based on the credit rating of its issuer. If both the RMB-Denominated Debt Instruments and its issuer are not rated, such instrument is classified as unrated. In the event of any downgrading in the credit rating of a debt instrument or an issuer relating to a debt instrument to BB+ or below, the Manager may try to dispose of these debt instruments as soon as practicable.

The Sub-Fund will not invest more than 10% of its total net asset value in urban investment bonds (urban investment bonds means enterprise bonds issued by local government financing vehicles (such as urban development investment vehicles) and approved by the National Development and Reform Commission in the PRC).

The Sub-Fund will not invest in any financial derivative instruments, structured products, structured deposits and asset-backed securities (including asset backed commercial papers) for purposes of investment, hedging or otherwise.

The Sub-Fund does not intend to enter into any securities lending transactions, repurchase/reverse repurchase transactions or other similar over-the-counter transactions. Should the Manager wishes to enter into any such transactions on behalf of the Sub-Fund, this will be subject to the prior approval of the SFC and at least one-month's prior notice will be given to the Unitholders.

The maximum borrowings of the Sub-Fund may not exceed 25% of its total Net Asset Value. For the purposes of this restriction, back-to-back loans do not count as borrowing. Borrowing may only be effected outside mainland China on a temporary basis for the purpose of meeting redemption requests or defraying fees, costs, charges, expenses and disbursements of the Sub-Fund or the Trust in accordance with the provisions of the Trust Deed.

- (c) The Manager's RQFII Quota currently allocated exclusively to the Trust is in the amount of RMB 1.1 billion. It is possible that the Sub-Fund may not be able to accept additional subscriptions due to this limitation.
- (d) **Custodian arrangements:** The Trustee takes into its custody or under its control the Sub-Fund's assets, including PRC assets deposited in the securities account(s) and the cash account(s) with the PRC Sub-Custodian, and holds the same in trust for the Unitholders. The Trustee has appointed Bank of China (Hong Kong) Limited (**Global Custodian**) as its global custodian pursuant to a Custodian Agreement, pursuant to which the Global Custodian shall hold the assets of the Sub-Fund as custodian. The Global Custodian will appoint Bank of China Limited (**PRC Sub-Custodian**) as its sub-custodian pursuant to a RQFII Sub-Custodian Agreement among the Manager (as RQFII), the Global Custodian and the PRC Sub-Custodian, pursuant to which the PRC Sub-Custodian shall hold the assets of the Sub-Fund invested in the PRC through the Manager's RQFII Quota. The RQFII Sub-Custodian Agreement will be supplemented by a RQFII supplemental custodian agreement to which the Trustee is also a party. The Trustee is liable for the acts and omissions of the PRC Sub-Custodian in relation to the assets forming part of the property of the Sub-Fund.

The Trustee registers the Sub-Fund's assets, including assets deposited via the Global Custodian in the securities account and the cash account opened and maintained with the PRC Sub-Custodian, to the order of the Trustee.

Instructions to execute transactions with respect to the Sub-Fund's assets in the securities account and the cash account as well as other matters such as the repatriation of funds shall be given by the Manager and delivered through the Trustee and the Global Custodian to the PRC Sub-Custodian (i.e. not delivered to the PRC Sub-Custodian directly). The PRC Sub-Custodian will look to the Trustee via the Global Custodian for instructions and solely act in accordance with the instructions of the Trustee or authorities granted by the Trustee.

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

- (i) securities account(s) and RMB cash account(s) with the PRC Sub-Custodian (respectively, the "securities account" and the "cash account") for the Sub-Fund shall be opened for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
  - (ii) the assets held/credited in the securities account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII), the PRC Sub-Custodian and any broker appointed to execute transactions for the Sub-Fund in the PRC markets (a "**PRC Broker**"), and from the assets of other clients of the Manager (as RQFII), the PRC Sub-Custodian and any PRC Broker;
  - (iii) the assets held/credited in the cash account(s) (i) become an unsecured debt owing from the PRC Sub-Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII) and any PRC Broker, and from the assets of other clients of the Manager (as RQFII) and any PRC Broker;
  - (iv) the Trustee, for and on behalf of the Sub-Fund is the only entity which has a valid claim of ownership over the assets in the securities account(s) and the debt in the amount deposited in the cash account(s) of the Sub-Fund;
  - (v) if the Manager or any PRC Broker is liquidated, the assets contained in the securities account(s) and cash account(s) of the Sub-Fund will not form part of the liquidation assets of the Manager or such PRC Broker in liquidation in the PRC; and
  - (vi) if the PRC Sub-Custodian is liquidated, (i) the assets contained in the securities account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Sub-Custodian in liquidation in the PRC, and (ii) the assets contained in the cash account(s) of the Sub-Fund will form part of the liquidation assets of the PRC Sub-Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash account.
- (e) **Potential conflict of interest:** Investors should be aware that:
- (i) the Trustee, the Global Custodian and the PRC Sub-Custodian are affiliates of each other; and
  - (ii) the Global Custodian, the PRC Sub-Custodian or their affiliates may act as a counterparty in a securities transaction of the Sub-Fund.

Potential conflicts of interest may exist in the performance of the functions of the Trustee, the Global Custodian and the PRC Sub-Custodian as they are affiliates of each other. However each entity has different set of business objectives, activities, reporting lines and senior management. Each of the Trustee, the Global Custodian and the PRC Sub-Custodian will comply with their respective regulatory obligations (where applicable) for managing conflicts of interests and have policies in place to deal with them. In particular there are effective Chinese walls and information barriers in place to separate the entities (internally and externally).

With respect to the potential conflicts of interest where the PRC Sub-Custodian, on one hand, acting as the custodian of the Fund, and on the other hand where it or its affiliates may act as the counterparty in securities transactions, within the PRC Sub-Custodian, there are segregation of duties between roles, functions and departments with effective Chinese walls and information barriers in place. The PRC Sub-Custodian has internal and external audit to ensure conflicts of interests are properly managed. The PRC Sub-Custodian is also subject to the supervision of the PBoC.

(f) **General overview of the PRC bond markets:**

The PRC bond markets consist of three markets: (i) the interbank bond market regulated by the People’s Bank of China and functions as a wholesale market for institutional investors; (ii) the exchange traded bond market regulated by the China Securities Regulatory Commission targets non-bank institutions and individuals investors; and (iii) the bank over-the-counter market regulated by the People’s Bank of China which targets individual investors. The size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange traded bond market.

The China Central Depository & Clearing Co. Ltd. (CCDC) acts as the central custodian of all marketable RMB bonds. For the exchange traded bond market, it adopts a two-level custody system, with the CCDC acting as the primary custodian and the China Securities Depository and Clearing Corporation Limited (CSDCCL) acting as the secondary custodian..

The main features of the two major PRC bond markets are set out in the table below.

	<b>Interbank Bond Market</b>	<b>Exchange-traded Bond Market</b>
Size	In 2013, 98% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; <a href="http://www.szse.cn">www.szse.cn</a> )	In 2013, 2% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; <a href="http://www.szse.cn">www.szse.cn</a> )
Major types of products being traded	Government bonds, central bank bills, financial bonds, enterprise bonds, commercial papers, midterm notes, asset backed securities, panda bonds (i.e. RMB denominated bonds issued by international financial institutions within the boundaries of China)	Government bonds, listed company bonds, enterprise bonds, convertible bonds, asset backed securities

Key market participants	Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), RQFIIs	Individuals and non-bank institutions (such as insurance companies and funds) , qualified foreign institutional investors ( <b>QFIIs</b> ), RQFIIs
Trading and settlement mechanism	Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1, depending on the bilateral negotiation	Centralised trade matching with netting settlement; settlement cycle: T+1
Regulator(s)	People's Bank of China	China Securities Regulatory Commission
Counterparty	The trading counterparty	China Securities Depository and Clearing Corporation Limited acting as the central counterparty to all securities transactions on the Shanghai and Shenzhen Stock Exchanges
Central Clearing Entity (if any)	China Central Depository & Clearing Co. Ltd. or Shanghai Clearing House, depending on the type of securities	China Securities Depository and Clearing Corporation Limited
Liquidity of market	High	Medium to low
Associated risks	Counterparty risk Credit risk of bond issuers Liquidity risk	Counterparty risk Credit risk of bond issuers Liquidity risk
Minimum rating requirements (if any)	No minimum rating requirement	AA for the exchange trading platform which is accessible by QFIIs and RQFIIs; no minimum rating requirement for the electronic trading platform

The common types of PRC debt securities and their issuers are described below:

<b>Debt securities</b>	<b>Issuer</b>
Central Bank Notes/Bills	People's Bank of China
Government Bonds, Treasury Bonds	Ministry of Finance
Policy Bank Bonds	Three issuers: China Development Bank, Agriculture Development Bank of China, and The Export-

	Import Bank of China)
Enterprise Bonds	Mostly state-owned enterprises
Corporate Bonds	Corporations / Listed companies
Commercial Paper and Medium Term Notes	Non-financial enterprises

The table below illustrates the tenor yield of fixed rate government bonds and fixed rate AAA corporate bonds. However, the yield shown is not an indication of the expected return of the Sub-Fund.

	Fixed Rate Government Bonds	Fixed Rate AAA Corporate Bond
6 months	3.8722	4.7183
1 Year	3.8103	4.7769
2 Years	3.9032	4.8773
3 Years	3.9555	4.9838
5 Years	3.9709	5.2004
10 Years	4.2361	5.7045

Source: Bloomberg, I414, I418, Yield Curve as of Aug 29, 2014

Information regarding credit rating

There are five major PRC local credit rating agencies in the PRC:

- Dagong Global Credit Rating Co., Ltd.
- China Chengxin International Credit Rating Co., Ltd. (in partnership with Moody's)
- Shanghai Brilliance Credit Rating & Investors Service Company
- China Lianhe Credit Rating Co., Ltd. (in partnership with Fitch Ratings)
- China Chengxin Security Rating Co., Ltd.

Some global credit rating agencies (such as Moody's, Standard & Poor's and Fitch) assign ratings to Chinese treasury bonds and non-treasury bonds denominated in foreign currencies. The local credit rating agencies mainly provide credit ratings to listed and interbank market bonds. The definition and methodology of ratings vary among local credit agencies.

For exchange bond market, the CSRC and its agencies regulate securities rating business activities according to law. The PBoC has issued guidance notes in relation to recognition of credit rating agencies in the interbank bond market. As with other global credit rating agencies, they apply quantitative method and qualitative methods in their rating. Such credit ratings are

subject to the credit rating agency's evaluation of the likelihood that the issuer will fulfil its repayment obligations. In contrast with international credit rating agencies, local credit rating agencies may take into account additional factors such as the importance of the corporate to the PRC central and local government and the potential support from the government. Rating information and reports are available on the websites of the relevant credit rating agencies and other financial data providers.

#### 4. Additional risk factors

In addition to the section entitled "Risk Factors" in the Offering Memorandum, the following are additional risk factors which an investor should consider before making an investing in the Units:

- (a) **Regulatory development and oversight:** At present, the securities market and regulatory framework for the securities industry in PRC is undergoing rapid growth and changes, which may lead to trading volatilities, difficulties in settlement and recording of transactions and in interpreting and applying the relevant regulations. In addition, some of the investment regulations under which the Sub-Fund intends to invest in the PRC are new, uncertain and may give the relevant PRC authorities wide discretion on their interpretation. There are no precedents on how such discretion might be exercised for issues that have not been clearly provided in the investment regulations, therefore leaving a considerable amount of uncertainty.
- (b) **Investment risk:** The Sub-Fund is an investment fund. Investments of the Sub-Fund will be made through the RQFII Quota of the Manager. The Sub-Fund mainly invests in RMB-Denominated Debt Instruments and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in RMB-Denominated Debt Instruments or placing RMB funds on deposit with a bank. There is also no guarantee of dividend or distribution payments during the period an investor holds Units in the Sub-Fund.
- (c) **Renminbi currency risk:** The Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the PRC government. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. Units in the Sub-Fund are subscribed for and redeemed in Renminbi. Particularly, conversion of Renminbi through banks in Hong Kong is subject to certain restrictions. It may be difficult for investors to convert Renminbi into Hong Kong dollars or other currencies or vice versa at any specific time, and conversion will be subject to conversion costs.

In addition, the value of Renminbi against Hong Kong dollars or other foreign currencies may be affected by a wide range of factors. There is no guarantee that Renminbi will not depreciate. A depreciation of Renminbi may result in a decrease in the market value of the underlying investments in this Sub-Fund, which could adversely affect the value of investors' investments in the Sub-Fund. Where an investor needs to convert Hong Kong dollars or a currency other than Renminbi into Renminbi in order for him to subscribe for Units in the Sub-Fund or convert the redemption proceeds in Renminbi into Hong Kong dollars, US dollars or a currency other than Renminbi, it is possible that the investor will suffer a loss if after the subscription, the Renminbi depreciates against Hong Kong dollars or such other currency. Also, the rates for converting Renminbi into Hong Kong dollars, US dollars or a currency other than Renminbi using the PRC offshore rate and the PRC onshore rate are different. They are moved by different market forces and their rates may not move in tandem.

The PRC government's policies on exchange control and repatriation restrictions may be subject to change in future, and as a result the Sub-Fund's or the investors' position may be adversely affected.

- (d) ***PRC market risk (single country risk)***: Investing in the PRC market involves certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater political risks, taxation issues, economic risks, foreign exchange risks, liquidity risks and regulatory risks.

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

The regulatory and legal framework for capital markets and joint stock companies in the PRC may be viewed as not as well developed as those of "developed" countries. Accounting standards and practices in the PRC may deviate significantly from international accounting standards.

The PRC government's control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in the PRC.

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

As the Sub-Fund invests primarily in the PRC, it may not be well diversified in terms of the number of holdings. Investors should be aware that the Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from a limited number of holdings or from adverse conditions in their respective countries, regions and sectors.

- (e) ***Risks associated with investment in RMB-Denominated Debt Instruments***

The Sub-Fund will invest a substantial proportion of its assets in RMB-Denominated Debt Instruments in the PRC.

- (i) ***PRC bond market risk***: Investment in Chinese bond market may have higher volatility and price fluctuation than investment in bond products in more developed markets.
- (ii) ***Credit and counterparty risks***: Investment in RMB-Denominated Debt Instruments is subject to the risk of the counterparty which may be unable or unwilling to make timely payments on principal and/or interest. The Sub-Fund may invest substantially in unrated debt instruments. The financial market of the PRC is at an early stage of development. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default of a counterparty of the RMB-Denominated Debt Instruments, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as

a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the counterparties of RMB-Denominated Debt Instruments as such counterparties may be incorporated outside Hong Kong and subject to foreign laws.

RMB-Denominated Debt Instruments may be offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if a counterparty becomes bankrupt or insolvent, proceeds from the liquidation of the counterparty's assets will be paid to holders of RMB-Denominated Debt Instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor. In addition, the Sub-Fund may experience delays in liquidating its positions and may incur significant losses (including declines in the value of its investment) or the inability to redeem any gains on investment during the period in which the Sub-Fund seeks to enforce its rights.

With respect to transactions in interbank market, the Sub-Fund will be exposed to higher counterparty risk on parties with whom it trades and when placing cash on deposit. The Sub-Fund will also be exposed to the risk of settlement default by a counterparty with which the Sub-Fund trades when buying and selling financial instruments (settlement risk). The risk of default of a counterparty is directly linked to the credit worthiness of the counterparty.

With respect to transactions in exchange market, the Sub-Fund will be exposed to the counterparty risk of CSDCC (acting as the central counterparty for bond transactions on the PRC Stock Exchanges).

- (iii) **Limited pool of investments:** The Sub-Fund's investment policy is to invest primarily in RMB-Denominated Debt Instruments. However, the quantity of RMB-Denominated Debt Instruments that are available to the Sub-Fund may be limited, and the duration of such RMB-Denominated Debt Instruments may be short. In the absence of a large pool of available RMB-Denominated Debt Instruments, or upon such instruments held are at maturity, the Sub-Fund may have to allocate a significant portion of its portfolio in RMB-negotiated term deposits with authorised financial institutions until suitable RMB-Denominated Debt Instruments are available in the market. This may adversely affect the Sub-Fund's return and performance.
- (iv) **Liquidity risk:** The RMB-Denominated Debt Instruments in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. There is also no guarantee that market making arrangements will be in place to make a market and quote a price for all RMB-Denominated Debt Instruments. In the absence of an active secondary market, the Sub-Fund may need to hold the RMB-Denominated Debt Instruments until their maturity date. If sizeable redemption requests are received (for example, as a result of credit downgrading or other significant events), the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such instruments. Even if a secondary market is developed, the price at which the RMB-Denominated Debt Instruments are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spread of the price of the RMB-Denominated Debt Instruments may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. Even if the RMB-Denominated Debt Instruments are listed on a

stock exchange, the market for such RMB-Denominated Debt Instruments may be inactive. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such RMB-Denominated Debt Instruments.

Please note also the uncertainty of and change in applicable laws and regulations in the PRC may significantly affect the liquidity of investments and adversely impact the Sub-Fund and/or investors.

- (v) **Interest rate risk:** Changes in interest rates may affect the value of a security as well as the financial markets in general. Since RMB-Denominated Debt Instruments are a type of debt instruments, they are more susceptible to fluctuation in interest rates and may fall in value if interest rates change. Generally, the prices of debt instruments rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt instruments are usually more sensitive to interest rate changes.
- (vi) **Credit rating downgrading risk and risks associated with investments rated BB+ or below by major PRC local credit rating agencies and unrated debt instruments:** In the event of any downgrading in the credit ratings of a debt instrument invested in by the Sub-Fund or an issuer relating to such debt instrument by major PRC local credit rating agencies, the Sub-Fund's investment value may be adversely affected. If the Sub-Fund continues to hold such debt instrument, it will be subject to additional risk of loss. The Manager may try to dispose of the debt instrument rated BB+ or below as soon as practicable but may or may not be able to do so subject to the prevailing market circumstances. Although the Sub-Fund does not intend to hold investments rated BB+ or below by major PRC local credit rating agencies and unrated debt instruments in the long term, in the event that the Manager does not dispose of such debt instruments, the Sub-Fund may invest in debt instruments which are rated BB+ or below by major PRC local credit rating agencies or unrated. Investors should note that such debt instruments would generally be considered to have a higher credit risk and a greater possibility of default than more highly-rated debt instruments. If the issuer of debt instruments defaults, or such debt instruments cannot be realised, or perform badly, investors may suffer substantial losses. The market for these debt instruments may be less active, making them more difficult to sell the debt instruments. Valuation of these debt instruments is more difficult and as a result the Net Asset Value of the Sub-Fund may be more volatile. In addition, investors should note that when economic conditions are deteriorating, or where an adverse event happens to the issuer, such debt instruments may not be objectively priced, whether founded or unfounded, and lower rated or unrated debt instruments (in particular, corporate bonds) may decline in market value due to investors' heightened concerns and perceptions over credit quality.
- (vii) **Risks associated with investments in municipal bonds:** Although municipal bonds are categorized as government bonds, credit risk and price volatility may be higher when compared with other bonds such as central bank bonds and policy bank bonds. Besides, liquidity may be low during adverse market situations.
- (viii) **Credit rating risk:** Many of the debt instruments in mainland China did not have rating assigned by international credit agencies. The credit appraisal system in mainland China is at an early stage of development, there is no standard credit rating methodology used in investment appraisal and the same rating scale may have a different meaning in different agencies. The assigned ratings may not reflect the actual financial strength of the appraised asset.

- (ix) **Valuation risk:** There is no guarantee that quotations will be available for all RMB-Denominated Debt Instruments. The Sub-Fund may be subject to risk on valuation of the Sub-Fund's Net Asset Value where the latest traded prices of RMB-Denominated Debt Instruments are not available at the time of valuation. Investors may be adversely affected depending upon the timing of subscription for or redemption of Units.

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

In addition, the valuation of debt securities (in particular, corporate bonds and short term bills) may be affected by changing market conditions or other significant market events (for example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly).

- (f) **Risks associated in investing in equities:** The Sub-Fund may invest up to 20% of its assets in shares of companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange. Investment in equities are subject to the risks that the market value of the shares may go down as well as up. Factors affecting share values are numerous, including changes in investment sentiments, political environment, economic environment, business and social conditions in local and global marketplace. Securities exchanges normally have the right to suspend or limit trading in any securities traded on the relevant exchanges under certain circumstances. A suspension or limitation on trading means liquidation of such securities is impossible and the Sub-Fund investing in these securities may be subject to losses.

In addition, in relation to investment in shares of companies listed on the Shenzhen Stock Exchange and Shanghai Stock Exchange, risk factors relating to Renminbi currency risk and PRC market risk would also apply to such investments.

- (g) **Risks associated with investment in small and medium capped companies:** Investing in smaller and medium capitalization companies involves special risks, including higher volatility and lower liquidity. These companies may be subject to less government intervention and supervision. Medium capped companies are also more sensitive to purchase/sale transactions and changes in the financial conditions.

- (h) **Cash custody risk:** Investors should note that cash deposited in the cash account of the Sub-Fund with the PRC Sub-Custodian will not be segregated but will be a debt owing from the PRC Sub-Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belong to other clients of the PRC Sub-Custodian. In the event of bankruptcy or liquidation of the PRC Sub-Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the PRC Sub-Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

- (i) **RQFII Regime Risks**

Under the prevailing regulations in mainland China, foreign investors can directly invest in the RQFII Permitted Securities through institutions that have obtained RQFII status in mainland China. The current RQFII Regulations impose strict restrictions (such as investment guidelines) on RQFII eligible securities investment. The Sub-Fund may invest in

RQFII Permitted Securities via the Manager's RQFII Quota. The prevailing rules and regulations governing RQFIIs under the RQFII Regulations impose restrictions on investments and other operational aspects of investments which will restrict or affect the Sub-Fund's investments.

Investors should be aware that the Sub-Fund may need to maintain high cash balances for the purposes of, among others, payment of the fees of its service providers and to meet redemption requests. This may result in lesser amounts being invested than would otherwise be the case.

- (i) ***RQFII Regulations:*** The RQFII Regulations which regulate investments by RQFIIs in mainland China and the repatriation are relatively new and novel in nature. The application and interpretation of the RQFII Regulations are therefore relatively untested and there is uncertainty as to how they will be applied. CSRC and SAFE have been given wide discretions in the RQFII Regulations and there is no precedent or certainty as to how these discretions might be exercised now or in the future. At this stage of early development, the RQFII Regulations may be subject to further revisions in the future, there is no assurance whether such revisions will prejudice the RQFII, or whether the RQFII Quota (including the Manager's RQFII Quota currently utilised exclusively by the Trust) which are subject to review from time to time by CSRC and SAFE may be removed substantially or entirely. At the time of the launch of the Sub-Fund, the RQFII Regulations continue to develop and are undergoing continual change. CSRC and/or SAFE may have power in the future to impose new restrictions or conditions on or terminate the RQFII status of the Manager which may adversely affect the Sub-Fund and the Unitholders. It is not possible to predict how such changes would affect the Sub-Fund.
- (ii) ***RQFII Quotas:*** Investment by the Sub-Fund will be made and held through the Manager's RQFII Quota and the Manager's RQFII Quota shall be used exclusively by the Trust. The RQFII Regulations apply to RQFII Quota(s) which may be obtained by the Manager as RQFII from time to time for the Sub-Fund or other investors as a whole, and not simply to investments made by the Sub-Fund. Thus investors should be aware that violations of the RQFII Regulations arising out of activities related to such RQFII Quota (including any other sub-fund of the Trust and public fund product managed by the Manager) and any additional RQFII Quota that may be obtained by the Manager (including any RQFII Quota managed by the Manager) in the future that is not allocated to the Sub-Fund could result in the revocation of or other regulatory action in respect of the RQFII Quota held by the Manager as a whole, including that utilised by the Sub-Fund through the Manager's RQFII Quota. Likewise, limits on investment in China A shares is applied in relation to the RQFII Quota held by the Manager as a whole. Hence the ability of the Sub-Fund to make investments and/or repatriate monies from the Manager's RQFII Quota may be affected adversely by the investments, performance and/or repatriation of monies invested by other investors utilising any additional RQFII Quota obtained by the Manager (including any RQFII Quota managed by the Manager) in the future.

In addition, any repatriation of monies by the Sub-Fund to meet obligations such as the payment of fees may adversely impact the ability of the Sub-Fund to repatriate monies to meet Unitholders' redemption requests.

There can be no assurance that the Sub-Fund will be able to obtain access to a sufficient RQFII Quota to meet all proposed investments to be made by the Sub-Fund or that the investments of the Sub-Fund can be realised in a timely manner due to possible adverse changes in relevant laws or regulations relating to the Manager's RQFII Quota which will hinder the Sub-Fund's ability to pursue the investment objectives or result in loss under extreme circumstances. Should the Manager lose its RQFII status or retire or be removed, or the Manager's RQFII Quota be revoked or reduced, the Sub-Fund may not be able to invest in RQFII Permitted Securities through the Manager's RQFII Quota, and the Sub-Fund may be required to dispose of its holdings, which would likely have a material adverse effect on the Sub-Fund.

- (iii) **Manager's RQFII Quota limitation:** The Manager's RQFII Quota currently allocated exclusively to the Trust is in the amount of RMB 1.1 billion. A.RQFII has the flexibility to allocate its RQFII quota across different public fund products under its management. The Sub-Fund does not have exclusive use of all the investment quota of the RQFII. There can be no assurance that sufficient RQFII quota can be allocated to the Sub-Fund to meet all application for subscriptions to the Sub-Fund. It is possible that the Sub-Fund may not be able to accept additional subscriptions due to this limitation and would not be able to achieve further economies of scale or otherwise take advantage of the increased capital base.
- (iv) **Custody:** Any RQFII Permissible Securities acquired by the Sub-Fund through the Manager's RQFII Quota will be maintained by the PRC Sub-Custodian and will be registered for the sole benefit and use of the Sub-Fund subject to applicable laws. There will be segregation of assets by the PRC Sub-Custodian such that the assets of the Sub-Fund will not form part of the assets of the Manager as RQFII or the PRC Sub-Custodian.

However, subject to the investment regulations, the Manager could be the party entitled to the securities in such securities trading account (albeit that this entitlement does not constitute an ownership interest or preclude the Manager purchasing the securities on behalf of the Sub-Fund), such securities may be vulnerable to a claim by a liquidator of the Manager and may not be as well protected as if they were registered solely in the name of the Sub-Fund. In particular, there is a risk that creditors of the Manager may incorrectly assume that the Sub-Fund's assets belong to the Manager and such creditors may seek to gain control of the Sub-Fund's assets to meet the Manager's liabilities owed to such creditors.

- (v) **PRC Securities Brokers and best execution:** The Sub-Fund may have difficulty in obtaining best execution of transactions in RQFII Permitted Securities. The Sub-Fund will use PRC brokers appointed by the Manager to execute transactions in the PRC markets for the account of the Sub-Fund. Due to operational constraints and until these are removed, the market practice currently allows only three Chinese brokers to be used per stock exchange in the PRC. If a PRC broker offers the Sub-Fund standards of execution which the Manager reasonably believes to be amongst best practice in the PRC marketplace, the Manager may determine that they should consistently execute transactions with that PRC broker (including where it is an affiliate) notwithstanding that they may not be executed at the best price and shall have no liability to account to the Sub-Fund in respect of the difference between the price at which the Sub-Fund executes transactions and any other price that may have been available in the market at that relevant time.

- (vi) **Limits on redemption:** Where the Sub-Fund is invested in the securities market in mainland China by investing through the Manager's RQFII Quota, repatriation of funds from mainland China may be subject to the RQFII Regulations in effect from time to time. Currently there is no regulatory prior approval requirement for repatriation of funds from the Manager's RQFII Quota. However the relevant RQFII regulations are subject to uncertainty in their application and there is no certainty that no regulatory restrictions will apply to the repatriation of funds by the Sub-Fund in the PRC in the future. Accordingly, the investment regulations and/or the approach adopted by SAFE in relation to the repatriation may change from time to time.

Please note that redemptions on any Dealing Day are subject to redemption restrictions described in the Offering Memorandum (including suspension of redemption and/or delay of payment of redemption monies) and in case of repatriation restrictions being imposed in the future, it is possible that the Manager may not resume acceptance of redemption request and/or make payment of redemption monies for as long as the time required for repatriation of funds from the Manager's RQFII Quota subject to regulatory restrictions in the PRC.

For each RQFII Quota approved by SAFE, the relevant RQFII is required to utilize the RQFII Quota effectively within one year from the SAFE approval date. If the RQFII fails to utilize the RQFII Quota effectively, SAFE could reduce or revoke the RQFII Quota depending on the circumstances. As utilization of the Manager's RQFII Quota will depend on the subscription level of the Sub-Fund and redemptions by investors of the Sub-Fund might result in the Manager's RQFII Quota being reduced or lost permanently.

- (vii) **Investment restrictions:** Since there are limits on the total shares held by all underlying investors in one listed company under the RQFII Regulations, the capacity of the Sub-Fund to make investments in China A shares will be affected by the activities of all underlying investors, not just the Manager.

Besides the Manager's RQFII Quota which is used currently exclusively by the Trust, the Sub-Fund, other sub-funds of the Trust or other products managed by the Manager may share the RQFII Quota; in addition, besides the Manager's RQFII Quota which is used exclusively by the Sub-Fund, the Manager may obtain additional RQFII Quotas in the future which could be utilised by other public fund products or entities. Violations of the RQFII Regulations by the Manager or arising out of the activities relating to the use of any RQFII Quota granted to the Manager (including the Manager's RQFII Quota) could result in the revocation of or other regulatory action in respect of such RQFII Quota or all RQFII Quotas granted to the Manager, which could directly impact the Sub-Fund.

- (viii) **Disclosure of interests and short swing profit rule:** Under the PRC disclosure of interest requirements, the Sub-Fund may be deemed to be acting in concert with other funds managed within the Manager's group or a substantial shareholder of the Manager's group and therefore may be subject to the risk that the Sub-Fund's holdings may have to be reported in aggregate with the holdings of such other funds mentioned above should the aggregate holding triggers the reporting threshold under the PRC law, currently being 5% of the total issued shares of the relevant PRC listed company. This may expose the Sub-Fund's holdings to the public with an adverse impact on the performance of the Sub-Fund.

In addition, subject to the interpretation of PRC courts and PRC regulators, the operation of the PRC short swing profit rule may be applicable to the Sub-Fund's investments with the result that where the holdings of the Sub-Fund (possibly with the holdings of other investors deemed as concert parties of the Sub-Fund) exceed 5% of the total issued shares of a PRC listed company, the Sub-Fund may not reduce its holdings in such company within six (6) months of the last purchase of shares of such company. If the Sub-Fund violates the rule and sells any of its holdings in such company in the six (6) month period, it may be required by the listed company to return any profits realised from such trading to the listed company. Moreover, under PRC civil procedures, the Fund's assets may be frozen to the extent of the claims made by such company. These risks may greatly impair the performance of the Sub-Fund.

- (j) ***Risk associated with PRC tax:*** The tax law and regulations of the PRC may change any time, and they may be changed with retrospective effect. The interpretation and applicability of the tax laws and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from location to location.

The value of the Sub-Fund's investments through the Manager's RQFII Quota (and hence the Net Asset Value of the Sub-Fund) will be affected by taxation levied against the Manager as RQFII in respect of the Sub-Fund's investments within the Manager's RQFII Quota, which the Sub-Fund will be required to reimburse the Manager. PRC taxation laws do not currently expressly address the treatment of RQFIIs and investment made within RQFII Quotas. This being the case, PRC tax may be levied based on the general provisions in PRC tax laws. The value of the Sub-Fund's investment in the PRC and the amount of its income and gains could be adversely affected by an increase in rates of taxation or changes in the basis of taxation. Redemption proceeds or distributions may be paid to Unitholders without taking full account of tax that may be suffered by the Sub-Fund, which tax will subsequently be borne by the Sub-Fund and affect the Net Asset Value of the Sub-Fund and the remaining Units in the Sub-Fund.

In particular, the PRC tax authorities have not clarified whether income tax is payable on capital gains arising from securities trading of RQFIIs. Relevant tax authorities may in the future clarify the tax position and impose an income tax or withholding tax on realized gains by RQFIIs from dealing in mainland China equities securities (and potentially fixed income securities). In light of this uncertainty and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for the tax on such gains and withhold the tax for the account of the Sub-Fund. The Manager will at present make a provision of 10% for the account of the Sub-Fund in respect of any potential capital gains tax on dealings in PRC equities securities and RMB-Denominated Debt Instruments. Upon any future resolution of the above mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. The amount of any such tax provision will be disclosed in the accounts of the Sub-Fund. If there is a shortfall in the tax provision amount, the Net Asset Value of the Sub-Fund may be affected as the Sub-Fund will have to bear the additional tax liabilities.

If the actual applicable tax levied by PRC tax authorities is greater 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 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 levied by

PRC tax authorities is less than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed the Units before PRC tax authorities' 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 can be returned to the account of the Sub-Fund as assets thereof.

The Sub-Fund may or may not be subject to business tax. The PRC tax authorities have not clarified whether the specific business tax exemption for capital gains derived by QFIIs is extended to cover RQFIIs. Relevant tax authorities may in the future issue specific tax circular to extend the business tax exemption for QFIIs to cover RQFIIs.

## 5. Subscription for, redemption, transfer and conversion of Units

- (a) **Classes of Units:** There are two (2) designated classes of Units in the Sub-Fund. Class A Units (available in RMB Class Currency) are available for sale to all members of the public in Hong Kong whilst Class I Units (available in RMB Class Currency) are only available to professional investors (as defined in the SFO) in Hong Kong. The terms of Class A Units is set out in the relevant Schedules to this Supplement.
- (b) **Minimum subscription and minimum holding:** The initial minimum subscription amount that must be subscribed for the Units is RMB10,000 with a subsequent minimum subscription of RMB10,000. The minimum holding of Units is RMB10,000. The Manager may, at its discretion, waive or modify these minimum limits.
- (c) **Extension of Initial Offering Period or postponement to launch of the Sub-Fund:** The Manager may either extend the Initial Offering Period or postpone the launch of the Sub-Fund if the total subscription amount received during the Initial Offering Period is less than RMB 30 million. If the Manager determines to postpone the launch of the Sub-Fund, subscription monies paid by the applicants will be returned without interest, within seven (7) Business Days from the date of such determination, by cheque or by telegraphic transfer to the bank account from which the monies originated, at the risk and expense of the applicants or in such other manner as may be determined by the Manager.
- (d) **Closing or suspension of subscription:** The Manager may close or suspend for further subscriptions for the Units in the Sub-Fund without any prior notice if the total Net Asset Value of the Sub-Fund reaches the RQFII Quota allocated to the Manager as a RQFII by the SAFE under the RQFII Regulations has been used up, whether this occurs during the Initial Offering Period or during the life of the Sub-Fund.
- (e) **Dealing deadline:** The Dealing Deadline is 4:00p.m. (Hong Kong time) on the relevant Dealing Day. An Authorised Distributor may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or conversions. Investors should confirm the arrangements with the Authorised Distributor concerned.
- (f) **Subscription, redemption, transfer and conversion of Units:** For details regarding the procedures for subscription, redemption and conversion of Units, see the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS" in the Offering Memorandum.

## 6. Valuation and prices

- (a) **Base Currency:** The reference currency of the Sub-Fund is RMB.

- (b) **Publication of prices:** The latest Subscription Price and Redemption Price for Class A Units will be published daily in Hong Kong in the South China Morning Post and the Hong Kong Economic Journal and will be available from the Manager upon request.

## 7. Distributions

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made on a quarterly basis (commencing on the fourth month from the close of the Initial Offering period) in Class Currency. There is no guarantee of such regular distributions and, if any distribution is made, the amount to be distributed. It is the current intention of the Manager that only the net income (the income net of expenses) for the Sub-Fund may be distributed. No distribution will be paid out of the Sub-Fund's capital.

## 8. Taxation – PRC

By investing in RMB-Denominated Debt Instruments issued by tax residents in the PRC and A-shares of companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange, a Sub-Fund may be subject to withholding and other taxes imposed in the PRC.

### (a) *Corporate Income Tax (CIT)*

The Manager intend to manage and operate the Sub-Fund in such a manner that the Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with an establishment or place of business in the PRC for CIT purposes, although this cannot be guaranteed.

If the Trust or the relevant Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to PRC CIT at 25% on its worldwide taxable income. If the Trust or the relevant Sub-Fund is a non-PRC tax resident without a PE in the PRC, the income derived by it from the investment in RMB-Denominated Debt Instruments would in general be subject to 10% PRC withholding income tax (“WIT”) in the PRC, unless exempt or reduced under specific tax circulars or relevant tax treaty.

- (i) *Interests / dividends:* Interests derived from government bonds issued by the in-charge Finance Bureau of the State Council, shall be exempted from PRC income tax under the CIT Law.

Unless a specific exemption is applicable, for recipients that are treated as non-residents in PRC and have not created an establishment or place of business (PE) in the PRC or have created a PE in the PRC but its income is not effectively connected with such PRC PE, under the CIT Law, a withholding income tax is levied on the payment of interests on those debt instruments, including bonds issued by enterprises established within the PRC and the dividend income received from A-Shares of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The general rate applicable is 10% (for non-residents).

The entity distributing such dividend or interests is required to withhold WIT. If the RQFII or foreign corporate investor is a tax resident of a tax treaty country, it may apply for the reduced PRC WIT rate under the relevant tax treaty. Under the avoidance of double taxation arrangement between China and Hong Kong (the “Arrangement”), the WIT charged on interests received by the non-resident holders of debt instruments (including enterprises and individuals) will be 7% of the gross amount of the interests, if the Hong Kong tax residents are the beneficial owners under the Arrangement, subject to the approval of the PRC tax authorities. However,

there are still uncertainties as to how the PRC tax authorities will assess the beneficial ownership for investment fund cases; it is uncertain whether the relevant Sub-Fund can obtain approval from the PRC tax authorities for this preferential rate. In order to qualify for this preferential rate, the Manager will further assess and seek to apply for approval from the PRC tax authorities in relation to the relevant Sub-Fund, although this cannot be guaranteed. If the relevant approval is not obtained, the general WIT rate of 10% will be applicable to the relevant Sub-Fund on interest.

On the other hand, interests derived from government bonds issued by the in-charge Finance Bureau of the State Council are exempt from PRC CIT under the PRC CIT Law.

- (ii) *Capital gains*: Under the prevailing CIT Laws, assuming no PRC PE is created, capital gains derived from disposal of RMB-Denominated Debt Instruments issued by PRC Companies may be subject to the withholding income tax (**WIT**) at 10%.

Specific rules governing taxes on capital gains derived by RQFIIs from the trading of PRC A-shares of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange have yet to be announced. In the absence of such specific rules, the income tax treatment should be governed by the general tax provisions of the PRC CIT Law. Under the general provisions, 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 exempted or reduced under relevant tax treaties.

- (b) **Business Tax (BT) and surtaxes**: The revised PRC Provisional Regulations of Business Tax (**BT Law**) which came into effect on 1 January 2009 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%.

Caishui [2005] 155 states that gains derived by QFIIs from the trading of Chinese securities (including A-Shares and other PRC listed securities) are exempted from BT. The new PRC BT law which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Offering Memorandum. However, it is not very clear that whether similar exemption would be extended to RQFIIs.

However, for marketable securities other than those trading under QFIIs, the new BT law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities.

The new BT law does not specifically exempt BT on interest earned by non-financial institution. Hence, interest on both government and corporate bonds in theory should be subject to 5% BT.

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), education surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the business tax liabilities, effected from 1 December 2010.

- (c) **Tax Provision**: It is the intention of the Manager to operate the affairs of the Manager and the Sub-Fund such that they are not PRC tax resident enterprises and have no PE in the PRC for PRC corporate income tax purposes, although this cannot be guaranteed.

The Manager will at present make a provision of 10% for the Sub-Fund in respect of any potential WIT on capital gains and may make relevant provision on interest or dividend income if the WIT is not withheld at source at the time when such income is received. Upon any future resolution of the above-mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. The amount of any such tax provision will be disclosed in the accounts of the Sub-Fund. It should be noted that the actual applicable tax rates imposed by SAT may be different and may change from time to time. There is a possibility of the rules being changed and the 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 on gains derived from investments held by the Sub-Fund. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such capital gains will be taxed, the level of provision and when they subscribed for and/or redeemed their Units in the Sub-Fund. 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 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 investors will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, investors who have redeemed the Units before any SAT 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 investors 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.

**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 the execution or receipt in China of certain documents, including loan contracts; contracts for the sale of China A-shares traded on the PRC stock exchanges. In the case of contracts for sale of China A-shares, such stamp duty is currently imposed on the seller but not on the purchaser, at the rate of 0.1%.

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which the Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

## SCHEDULE

### Information on Class A Units

<b>Eligibility</b>	All members of the public in Hong Kong and such other persons that fall within the definition of Eligible Investors
<b>Class Currency</b>	RMB
<b>Initial Offering Period</b>	9:00 a.m. (Hong Kong time) on 1 February 2012 and ends at 4:00 p.m. (Hong Kong time) on 2 March 2012
<b>Initial Subscription Price</b>	RMB 100 (exclusive of Subscription Fee)
<b>Dealing Day</b>	Every Business Day
<b>Dealing Deadline</b>	4:00 p.m. (Hong Kong time) on each Dealing Day (note that dealing deadline maybe different if subscription applications or redemption requests are placed with an Authorised Distributor or through electronically or other authorised means as determined by the Manager from time to time)
<b>Subscription Fee</b>	Up to 3% of the Subscription Price per Unit
<b>Redemption Fee</b>	Nil
<b>Conversion Fee</b>	Up to 1% on the Subscription Price per Unit in the new class
<b>Minimum Initial Subscription</b>	RMB Class A: RMB10,000
<b>Minimum Subsequent Subscription</b>	RMB Class A: RMB10,000
<b>Minimum Holding</b>	RMB Class A: RMB10,000
<b>Minimum Redemption</b>	RMB Class A: RMB10,000
<b>Management Fee</b>	Up to 1.2% on the Net Asset Value of the Sub-Fund per annum
<b>Trustee Fee</b>	Up to 0.175% of the Net Asset Value of the Sub-Fund per annum, subject to a minimum monthly fee of RMB 40,000

<b>Global Custody Fees</b>	Up to 0.10% of the Net Asset Value of the Sub-Fund per annum, and inclusive of the custody fees payable to the PRC Sub-Custodian
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## SUPPLEMENT 2

### HUAAN AGGREGATE CHINA FOCUS BOND FUND

This document is a "Supplement" as defined in the Offering Memorandum. The information contained in this Supplement supplements the information contained in the Offering Memorandum. This Supplement should only be read in conjunction with and as one document with the Offering Memorandum.

#### 1. Preliminary

HuaAn Aggregate China Focus Bond Fund (the **Sub-Fund**) has been authorised by the SFC as an authorised collective investment scheme pursuant to section 104 of the SFO on 2 December 2014. SFC authorisation is not a recommendation or endorsement of HuaAn Aggregate China Focus Bond Fund nor does it guarantee the commercial merits of HuaAn Aggregate China Focus Bond Fund or its performance. It does not mean HuaAn Aggregate China Focus Bond Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or classes of investors.

Except for the obtaining of authorisation from the SFC, no action has been taken to permit the distribution of this Supplement and the Offering Memorandum in any jurisdiction where action would be required for such purpose. Accordingly, no person receiving a copy of this Supplement and the Offering Memorandum (and also the Subscription Form) in any territory other than Hong Kong may treat the same as constituting an invitation to purchase or subscribe for Units nor should the Subscription Form be used unless in the relevant territory where such an invitation could lawfully be used without compliance with any registration or legal requirement.

**Prospective investors are advised that prior to making any subscription for Units, information set out in this Supplement (when read in conjunction with the Offering Memorandum) must be carefully considered.**

#### 2. Interpretation

In this Supplement:-

- (a) capitalised terms used but not otherwise defined in this Supplement have the meanings assigned to such terms in the Offering Memorandum, unless the context otherwise requires; and
- (b) references to **Business Day** are any day (other than a Saturday, Sunday or a public holiday) on which banks in Hong Kong and the PRC (excluding Hong Kong, Macau and Taiwan) are generally open for banking business or such other day as the Manager and the Trustee may from time to time determine, provided that where, as a result of an occurrence of a number 8 (or greater) typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on such day is reduced, such day shall not be a Business Day, unless the Manager otherwise determines.
- (c) references to **Units** and **Unitholders** are to Units and Unitholders referable to the Sub-Fund only;
- (d) references to **RQFII** are to the "Renminbi Qualified Foreign Institutional Investor", an eligible person that qualifies to invest in certain assets in the PRC under the relevant PRC laws and regulations and references to **RQFII Regulations** are to laws and regulations promulgated in the PRC which permit such investments in the PRC by the RQFII.

### 3. Investment objective and strategy and investment restrictions

(a) **Investment objective and strategy:** The investment objective of the Sub-Fund is to achieve long term capital growth and provide a steady flow of income through investing all Net Asset Value in RMB denominated and settled fixed rate or floating rate debt instruments (**RMB-Denominated Debt Instruments**) by actively managing the risks of such portfolio. The RMB-Denominated Debt Instruments include the following, without limitation (as permitted by the RQFII Regulations from time to time):

- (i) short term bonds such as commercial paper and short term bills and notes (with maturity within one (1) year); and
- (ii) medium term and long term bonds (with maturity of three (3) to five (5) years for medium term bonds, and maturity of five (5) years or more for long term bonds).

which may be issued or distributed by governments and quasi-government organisations and multinational organisations, financial institutions and other corporations that are based or established within the PRC (through the quota (**RQFII Quota**) allocated to the Manager as RQFII by the State Administration of Foreign Exchange (**SAFE**) under the RQFII Regulations) in the interbank market and/or the exchange-traded market.

The Sub-Fund will only be investing in those RMB-Denominated Debt Instruments which have a minimum credit rating of BBB- or above issued by any one of major PRC local credit rating agencies.

Each instrument in the portfolio of the Sub-Fund will be selected based on extensive fundamental research. Subject to the above asset allocation, the Manager will make investment among debt instruments.

(b) **Investment restrictions:** Investments in the Sub-Fund are subject to the above investment policy and restrictions set out below and the investment restrictions applicable to the Sub-Fund, as set out in the Offering Memorandum.

The Sub-Fund will not invest in RMB-Denominated Debt Instruments which are rated BB+ or below by any one of major PRC local credit rating agencies or unrated. The rating of each RMB-Denominated Debt Instrument should be the credit rating of the instrument itself. If the instrument itself does not have a credit rating, the credit rating would be based on the credit rating of its issuer. If both the RMB-Denominated Debt Instruments and its issuer are not rated, such instrument is classified as unrated. In the event of any downgrading in the credit rating of a debt instrument or an issuer relating to a debt instrument to BB+ or below, the Manager may try to dispose of these debt instrument as soon as practicable.

The Sub-Fund will not invest more than 10% of its total net asset value in urban investment bonds (urban investment bonds means enterprise bonds issued by local government financing vehicles (such as urban development investment vehicles) and approved by the National Development and Reform Commission in the PRC).

The Sub-Fund will not invest in any financial derivative instruments, structured products, structured deposits and asset-backed securities (including asset backed commercial papers) for purposes of investment, hedging or otherwise.

The Sub-Fund does not intend to enter into any securities lending transactions, repurchase/reverse repurchase transactions or other similar over-the-counter transactions.

Should the Manager wishes to enter into any such transactions on behalf of the Sub-Fund, this will be subject to the prior approval of the SFC and at least one-month's prior notice will be given to the Unitholders.

The maximum borrowings of the Sub-Fund may not exceed 25% of its total Net Asset Value. For the purposes of this restriction, back-to-back loans do not count as borrowing. Borrowing may only be effected outside mainland China on a temporary basis for the purpose of meeting redemption requests or defraying fees, costs, charges, expenses and disbursements of the Sub-Fund or the Trust in accordance with the provisions of the Trust Deed.

- (c) The Manager's RQFII Quota currently allocated exclusively to the Trust is in the amount of RMB 1.1 billion. It is possible that the Sub-Fund may not be able to accept additional subscriptions due to this limitation.
- (d) **Custodian arrangements:** The Trustee takes into its custody or under its control the Sub-Fund's assets, including PRC assets deposited in the securities account(s) and the cash account(s) with the PRC Sub-Custodian, and holds the same in trust for the Unitholders. The Trustee has appointed Bank of China (Hong Kong) Limited (**Global Custodian**) as its global custodian pursuant to a Custodian Agreement, pursuant to which the Global Custodian shall hold the assets of the Sub-Fund as custodian. The Global Custodian will appoint Bank of China Limited (**PRC Sub-Custodian**) as its sub-custodian pursuant to a RQFII Sub-Custodian Agreement among the Manager (as RQFII), the Global Custodian and the PRC Sub-Custodian, pursuant to which the PRC Sub-Custodian shall hold the assets of the Sub-Fund invested in the PRC through the Manager's RQFII Quota. The RQFII Sub-Custodian Agreement will be supplemented by a RQFII supplemental custodian agreement to which the Trustee is also a party. The Trustee is liable for the acts and omissions of the PRC Sub-Custodian in relation to the assets forming part of the property of the Sub-Fund.

The Trustee registers the Sub-Fund's assets, including assets deposited via the Global Custodian in the securities account and the cash account opened and maintained with the PRC Sub-Custodian, to the order of the Trustee.

Instructions to execute transactions with respect to the Sub-Fund's assets in the securities account and the cash account as well as other matters such as the repatriation of funds shall be given by the Manager and delivered through the Trustee and the Global Custodian to the PRC Sub-Custodian (i.e. not delivered to the PRC Sub-Custodian directly). The PRC Sub-Custodian will look to the Trustee via the Global Custodian for instructions and solely act in accordance with the instructions of the Trustee or authorities granted by the Trustee.

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

- (i) securities account(s) and RMB cash account(s) with the PRC Sub-Custodian (respectively, the "securities account" and the "cash account") for the Sub-Fund shall be opened for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (ii) the assets held/credited in the securities account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII), the PRC Sub-Custodian and any broker appointed to execute transactions for the Sub-Fund in the PRC markets (a "**PRC Broker**"), and from the

assets of other clients of the Manager (as RQFII), the PRC Sub-Custodian and any PRC Broker;

- (iii) the assets held/credited in the cash account(s) (i) become an unsecured debt owing from the PRC Sub-Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII) and any PRC Broker, and from the assets of other clients of the Manager (as RQFII) and any PRC Broker;
  - (iv) the Trustee, for and on behalf of the Sub-Fund is the only entity which has a valid claim of ownership over the assets in the securities account(s) and the debt in the amount deposited in the cash account(s) of the Sub-Fund;
  - (v) if the Manager or any PRC Broker is liquidated, the assets contained in the securities account(s) and cash account(s) of the Sub-Fund will not form part of the liquidation assets of the Manager or such PRC Broker in liquidation in the PRC; and
  - (vi) if the PRC Sub-Custodian is liquidated, (i) the assets contained in the securities account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Sub-Custodian in liquidation in the PRC, and (ii) the assets contained in the cash account(s) of the Sub-Fund will form part of the liquidation assets of the PRC Sub-Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash account.
- (e) **Potential conflict of interest:** Investors should be aware that:
- (i) the Trustee, the Global Custodian and the PRC Sub-Custodian are affiliates of each other; and
  - (ii) the Global Custodian, the PRC Sub-Custodian or their affiliates may act as a counterparty in a securities transaction of the Sub-Fund.

Potential conflicts of interest may exist in the performance of the functions of the Trustee, the Global Custodian and the PRC Sub-Custodian as they are affiliates of each other. However each entity has different set of business objectives, activities, reporting lines and senior management. Each of the Trustee, the Global Custodian and the PRC Sub-Custodian will comply with their respective regulatory obligations (where applicable) for managing conflicts of interests and have policies in place to deal with them. In particular there are effective Chinese walls and information barriers in place to separate the entities (internally and externally).

With respect to the potential conflicts of interest where the PRC Sub-Custodian, on one hand, acting as the custodian of the Fund, and on the other hand where it or its affiliates may act as the counterparty in securities transactions, within the PRC Sub-Custodian, there are segregation of duties between roles, functions and departments with effective Chinese walls and information barriers in place. The PRC Sub-Custodian has internal and external audit to ensure conflicts of interests are properly managed. The PRC Sub-Custodian is also subject to the supervision of the PBoC.

(f) **General overview of the PRC bond markets:**

The PRC bond markets consist of three markets: (i) the interbank bond market regulated by the People's Bank of China and functions as a wholesale market for institutional investors; (ii) the exchange traded bond market regulated by the China Securities Regulatory Commission targets

non-bank institutions and individuals investors; and (iii) the bank over-the-counter market regulated by the People's Bank of China which targets individual investors. The size and trading volume of the bank over-the-counter market is much smaller than the interbank bond market and the exchange traded bond market.

The China Central Depository & Clearing Co. Ltd. (**CCDC**) acts as the central custodian of all marketable RMB bonds. For the exchange traded bond market, it adopts a two-level custody system, with the CCDC acting as the primary custodian and the China Securities Depository and Clearing Corporation Limited (**CSDCCL**) acting as the secondary custodian.

The main features of the two major PRC bond markets are set out in the table below.

	<b>Interbank Bond Market</b>	<b>Exchange-traded Bond Market</b>
Size	In 2013, 98% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; <a href="http://www.szse.cn">www.szse.cn</a> )	In 2013, 2% of all bond transactions (Data source: <a href="http://www.chinabond.com.cn">www.chinabond.com.cn</a> ; <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; <a href="http://www.szse.cn">www.szse.cn</a> )
Major types of products being traded	Government bonds, central bank bills, financial bonds, enterprise bonds, commercial papers, midterm notes, asset backed securities, panda bonds (i.e. RMB denominated bonds issued by international financial institutions within the boundaries of China)	Government bonds, listed company bonds, enterprise bonds, convertible bonds, asset backed securities
Key market participants	Institutional investors (such as commercial banks, securities firms, funds and trust investment companies), RQFIIs	Individuals and non-bank institutions (such as insurance companies and funds) , qualified foreign institutional investors ( <b>QFIIs</b> ), RQFIIs
Trading and settlement mechanism	Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1, depending on the bilateral negotiation	Centralised trade matching with netting settlement; settlement cycle: T+1
Regulator(s)	People's Bank of China	China Securities Regulatory Commission
Counterparty	The trading counterparty	China Securities Depository and Clearing Corporation Limited acting as the central counterparty to all securities transactions on the Shanghai and Shenzhen Stock Exchanges

Central Clearing Entity (if any)	China Central Depository & Clearing Co. Ltd. or Shanghai Clearing House, depending on the type of securities	China Securities Depository and Clearing Corporation Limited
Liquidity of market	High	Medium to low
Associated risks	Counterparty risk Credit risk of bond issuers Liquidity risk	Counterparty risk Credit risk of bond issuers Liquidity risk
Minimum rating requirements (if any)	No minimum rating requirement	AA for the exchange trading platform which is accessible by QFIIs and RQFIIs; no minimum rating requirement for the electronic trading platform

The common types of PRC debt securities and their issuers are described below:

<b>Debt securities</b>	<b>Issuer</b>
Central Bank Notes/Bills	People's Bank of China
Government Bonds, Treasury Bonds	Ministry of Finance
Policy Bank Bonds	Three issuers: China Development Bank, Agriculture Development Bank of China, and The Export-Import Bank of China
Enterprise Bonds	Mostly state-owned enterprises
Corporate Bonds	Corporations / Listed companies
Commercial Paper and Medium Term Notes	Non-financial enterprises

The table below illustrates the tenor yield of fixed rate government bonds and fixed rate AAA corporate bonds. However, the yield shown is not an indication of the expected return of the Sub-Fund.

	Fixed Rate Government Bonds	Fixed Rate AAA Corporate Bond
6 months	3.8722	4.7183
1 Year	3.8103	4.7769
2 Years	3.9032	4.8773
3 Years	3.9555	4.9838
5 Years	3.9709	5.2004
10 Years	4.2361	5.7045

*Source: Bloomberg, I414, I418, Yield Curve as of Aug 29, 2014*

Information regarding credit rating

There are five major PRC local credit rating agencies in the PRC:

- Dagong Global Credit Rating Co., Ltd.
- China Chengxin International Credit Rating Co., Ltd. (in partnership with Moody's)
- Shanghai Brilliance Credit Rating & Investors Service Company
- China Lianhe Credit Rating Co., Ltd. (in partnership with Fitch Ratings)
- China Chengxin Security Rating Co., Ltd.

Some global credit rating agencies (such as Moody's, Standard & Poor's and Fitch) assign ratings to Chinese treasury bonds and non-treasury bonds denominated in foreign currencies. The local credit rating agencies mainly provide credit ratings to listed and interbank market bonds. The definition and methodology of ratings vary among local credit agencies.

For exchange bond market, the CSRC and its agencies regulate securities rating business activities according to law. The PBoC has issued guidance notes in relation to recognition of credit rating agencies in the interbank bond market. As with other global credit rating agencies, they apply quantitative method and qualitative methods in their rating. Such credit ratings are subject to the credit rating agency's evaluation of the likelihood that the issuer will fulfil its repayment obligations. In contrast with international credit rating agencies, local credit rating agencies may take into account additional factors such as the importance of the corporate to the PRC central and local government and the potential support from the government. Rating information and reports are available on the websites of the relevant credit rating agencies and other financial data providers.

#### **4. Additional risk factors**

In addition to the section entitled "Risk Factors" in the Offering Memorandum, the following are additional risk factors which an investor should consider before making an investing in the Units:

- (a) **Regulatory development and oversight:** At present, the securities market and regulatory framework for the securities industry in PRC is undergoing rapid growth and changes, which may lead to trading volatilities, difficulties in settlement and recording of transactions and in interpreting and applying the relevant regulations. In addition, some of the investment regulations under which the Sub-Fund intends to invest in the PRC are new, uncertain and may give the relevant PRC authorities wide discretion on their interpretation. There are no precedents on how such discretion might be exercised for issues that have not been clearly provided in the investment regulations, therefore leaving a considerable amount of uncertainty.
- (b) **Investment risk:** The Sub-Fund is an investment fund. Investments of the Sub-Fund will be made through the RQFII Quota of the Manager. The Sub-Fund mainly invests in RMB-Denominated Debt Instruments and these instruments may fall in value. Investors may suffer losses as a result. The Sub-Fund is not principal guaranteed and the purchase of its Units is not the same as investing directly in RMB-Denominated Debt Instruments or placing RMB funds on deposit with a bank. There is also no guarantee of dividend or distribution payments during the period an investor holds Units in the Sub-Fund.
- (c) **Renminbi currency risk:** The Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the PRC government. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected. Units in the Sub-Fund are subscribed for and redeemed in Renminbi. Particularly, conversion of Renminbi through banks in Hong Kong is subject to certain restrictions. It may be difficult for investors to convert Renminbi into Hong Kong dollars or other currencies or vice versa at any specific time, and conversion will be subject to conversion costs.

In addition, the value of Renminbi against Hong Kong dollars or other foreign currencies may be affected by a wide range of factors. There is no guarantee that Renminbi will not depreciate. A depreciation of Renminbi may result in a decrease in the market value of the underlying investments in this Sub-Fund, which could adversely affect the value of investors' investments in the Sub-Fund. Where an investor needs to convert Hong Kong dollars or a currency other than Renminbi into Renminbi in order for him to subscribe for Units in the Sub-Fund or convert the redemption proceeds in Renminbi into Hong Kong dollars, US dollars or a currency other than Renminbi, it is possible that the investor will suffer a loss if after the subscription, the Renminbi depreciates against Hong Kong dollars or such other currency. Also, the rates for converting Renminbi into Hong Kong dollars, US dollars or a currency other than Renminbi using the PRC offshore rate and the PRC onshore rate are different. They are moved by different market forces and their rates may not move in tandem.

The PRC government's policies on exchange control and repatriation restrictions may be subject to change in future, and as a result the Sub-Fund's or the investors' position may be adversely affected.

- (d) **PRC market risk (single country risk):** Investing in the PRC market involves certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater political risks, taxation issues, economic risks, foreign exchange risks, liquidity risks and regulatory risks.

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

The regulatory and legal framework for capital markets and joint stock companies in the PRC may be viewed as not as well developed as those of "developed" countries. Accounting standards and practices in the PRC may deviate significantly from international accounting standards.

The PRC government's control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in the PRC.

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

As the Sub-Fund invests primarily in the PRC, it may not be well diversified in terms of the number of holdings. Investors should be aware that the Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as they are more susceptible to fluctuations in value resulting from a limited number of holdings or from adverse conditions in their respective countries, regions and sectors.

(e) ***Risks associated with investment in RMB-Denominated Debt Instruments***

The Sub-Fund will invest a substantial proportion of its assets in RMB-Denominated Debt Instruments in the PRC.

- (i) ***PRC bond market risk:*** Investment in Chinese bond market may have higher volatility and price fluctuation than investment in bond products in more developed markets.
- (ii) ***Credit and counterparty risks:*** Investment in RMB-Denominated Debt Instruments is subject to the risk of the counterparty which may be unable or unwilling to make timely payments on principal and/or interest. The financial market of the PRC is at an early stage of development. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default of a counterparty of the RMB-Denominated Debt Instruments, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the counterparties of RMB-Denominated Debt Instruments as such counterparties may be incorporated outside Hong Kong and subject to foreign laws.

RMB-Denominated Debt Instruments may be offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if a counterparty becomes bankrupt or insolvent, proceeds from the liquidation of the counterparty's assets will be paid to holders of RMB-Denominated Debt Instruments only after all secured claims have been satisfied in full. The Sub-

Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor. In addition, the Sub-Fund may experience delays in liquidating its positions and may incur significant losses (including declines in the value of its investment) or the inability to redeem any gains on investment during the period in which the Sub-Fund seeks to enforce its rights.

With respect to transactions in interbank market, the Sub-Fund will be exposed to higher counterparty risk on parties with whom it trades and when placing cash on deposit. The Sub-Fund will also be exposed to the risk of settlement default by a counterparty with which the Sub-Fund trades when buying and selling financial instruments (settlement risk). The risk of default of a counterparty is directly linked to the credit worthiness of the counterparty.

With respect to transactions in exchange market, the Sub-Fund will be exposed to the counterparty risk of CSDCC (acting as the central counterparty for bond transactions on the PRC Stock Exchanges).

- (iii) **Limited pool of investments:** The Sub-Fund's investment policy is to invest primarily in RMB-Denominated Debt Instruments. However, the quantity of RMB-Denominated Debt Instruments that are available to the Sub-Fund may be limited, and the duration of such RMB-Denominated Debt Instruments may be short. In the absence of a large pool of available RMB-Denominated Debt Instruments, or upon such instruments held are at maturity, the Sub-Fund may have to allocate a significant portion of its portfolio in RMB-negotiated term deposits with authorised financial institutions until suitable RMB-Denominated Debt Instruments are available in the market. This may adversely affect the Sub-Fund's return and performance.
- (iv) **Liquidity risk:** The RMB-Denominated Debt Instruments in which the Sub-Fund invests may not be listed on a stock exchange or a securities market where trading is conducted on a regular basis. There is also no guarantee that market making arrangements will be in place to make a market and quote a price for all RMB-Denominated Debt Instruments. In the absence of an active secondary market, the Sub-Fund may need to hold the RMB-Denominated Debt Instruments until their maturity date. If sizeable redemption requests are received (for example, as a result of credit downgrading or other significant events), the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such instruments. Even if a secondary market is developed, the price at which the RMB-Denominated Debt Instruments are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. Further, the bid and offer spread of the price of the RMB-Denominated Debt Instruments may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments. Even if the RMB-Denominated Debt Instruments are listed on a stock exchange, the market for such RMB-Denominated Debt Instruments may be inactive. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such RMB-Denominated Debt Instruments.

Please note also the uncertainty of and change in applicable laws and regulations in the PRC may significantly affect the liquidity of investments and adversely impact the Sub-Fund and/or investors.

- (v) **Interest rate risk:** Changes in interest rates may affect the value of a security as well as the financial markets in general. Since RMB-Denominated Debt Instruments are a type of debt instruments, they are more susceptible to fluctuation in interest rates and may fall in value if interest rates change. Generally, the prices of debt instruments rise when interest rates fall, whilst their prices fall when interest rates rise. Longer term debt instruments are usually more sensitive to interest rate changes.
- (vi) **Credit rating downgrading risk and risks associated with investments rated BB+ or below by major PRC local credit rating agencies and unrated debt instruments:** In the event of any downgrading in the credit ratings of a debt instrument invested in by the Sub-Fund or an issuer relating to such debt instrument by major PRC local credit rating agencies, the Sub-Fund's investment value may be adversely affected. If the Sub-Fund continues to hold such debt instrument, it will be subject to additional risk of loss. The Manager may try to dispose of the debt instruments rated BB+ or below as soon as practicable but may or may not be able to do so subject to the prevailing market circumstances. Although the Sub-Fund does not intend to hold investments rated BB+ or below by major PRC local credit rating agencies and unrated debt instruments in the long term, in the event that the Manager does not dispose of such debt instruments, the Sub-Fund may invest in debt instruments which are rated BB+ or below by major PRC local credit rating agencies or unrated. Investors should note that such debt instruments would generally be considered to have a higher credit risk and a greater possibility of default than more highly-rated debt instruments. If the issuer of debt instruments defaults, or such debt instruments cannot be realised, or perform badly, investors may suffer substantial losses. The market for these debt instruments may be less active, making them more difficult to sell the debt instruments. Valuation of these debt instruments is more difficult and as a result the Net Asset Value of the Sub-Fund may be more volatile. In addition, investors should note that when economic conditions are deteriorating, or where an adverse event happens to the issuer, such debt instruments may not be objectively priced, whether founded or unfounded, and lower rated or unrated debt instruments (in particular, corporate bonds) may decline in market value due to investors' heightened concerns and perceptions over credit quality.
- (vii) **Risks associated with investments in municipal bonds:** Although municipal bonds are categorized as government bonds, credit risk and price volatility may be higher when compared with other bonds such as central bank bonds and policy bank bonds. Besides, liquidity may be low during adverse market situations.
- (viii) **Credit rating risk:** Many of the debt instruments in mainland China did not have rating assigned by international credit agencies. The credit appraisal system in mainland China is at an early stage of development, there is no standard credit rating methodology used in investment appraisal and the same rating scale may have a different meaning in different agencies. The assigned ratings may not reflect the actual financial strength of the appraised asset.
- (ix) **Valuation risk:** There is no guarantee that quotations will be available for all RMB-Denominated Debt Instruments. The Sub-Fund may be subject to risk on valuation of the Sub-Fund's Net Asset Value where the latest traded prices of RMB-Denominated Debt Instruments are not available at the time of valuation. Investors may be adversely affected depending upon the timing of subscription for or redemption of Units.

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

In addition, the valuation of debt securities (in particular, corporate bonds and short term bills) may be affected by changing market conditions or other significant market events (for example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly).

- (f) ***Risks associated with investment in small and medium capped companies:*** Investing in smaller and medium capitalization companies involves special risks, including higher volatility and lower liquidity. These companies may be subject to less government intervention and supervision. Medium capped companies are also more sensitive to purchase/sale transactions and changes in the financial conditions.
- (g) ***Cash custody risk:*** Investors should note that cash deposited in the cash account of the Sub-Fund with the PRC Sub-Custodian will not be segregated but will be a debt owing from the PRC Sub-Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belong to other clients of the PRC Sub-Custodian. In the event of bankruptcy or liquidation of the PRC Sub-Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking pari passu with all other unsecured creditors, of the PRC Sub-Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.
- (h) ***RQFII Regime Risks***

Under the prevailing regulations in mainland China, foreign investors can directly invest in the RQFII Permitted Securities through institutions that have obtained RQFII status in mainland China. The current RQFII Regulations impose strict restrictions (such as investment guidelines) on RQFII eligible securities investment. The Sub-Fund may invest in RQFII Permitted Securities via the Manager's RQFII Quota. The prevailing rules and regulations governing RQFIIs under the RQFII Regulations impose restrictions on investments and other operational aspects of investments which will restrict or affect the Sub-Fund's investments.

Investors should be aware that the Sub-Fund may need to maintain high cash balances for the purposes of, among others, payment of the fees of its service provides and to meet redemption requests. This may result in lesser amounts being invested than would otherwise be the case.

- (i) ***RQFII Regulations:*** The RQFII Regulations which regulate investments by RQFIIs in mainland China and the repatriation are relatively new and novel in nature. The application and interpretation of the RQFII Regulations are therefore relatively untested and there is uncertainty as to how they will be applied. CSRC and SAFE have been given wide discretions in the RQFII Regulations and there is no precedent or certainty as to how these discretions might be exercised now or in the future. At this stage of early development, the RQFII Regulations may be subject to further revisions in the future, there is no assurance whether such revisions will prejudice the RQFII, or whether the RQFII Quota (including the Manager's RQFII Quota currently utilised exclusively by the Trust) which are subject to review from time to time by CSRC and SAFE may be removed substantially or entirely. At the time of

the launch of the Sub-Fund, the RQFII Regulations continue to develop and are undergoing continual change. CSRC and/or SAFE may have power in the future to impose new restrictions or conditions on or terminate the RQFII status of the Manager which may adversely affect the Sub-Fund and the Unitholders. It is not possible to predict how such changes would affect the Sub-Fund.

- (ii) ***RQFII Quotas:*** Investment by the Sub-Fund will be made and held through the Manager's RQFII Quota and the Manager's RQFII Quota shall be used exclusively by the Trust. The RQFII Regulations apply to RQFII Quota(s) which may be obtained by the Manager as RQFII from time to time for the Sub-Fund or other investors as a whole, and not simply to investments made by the Sub-Fund. Thus investors should be aware that violations of the RQFII Regulations arising out of activities related to such RQFII Quota (including any other sub-fund of the Trust and public fund product managed by the Manager) and any additional RQFII Quota that may be obtained by the Manager (including any RQFII Quota managed by the Manager) in the future that is not allocated to the Sub-Fund could result in the revocation of or other regulatory action in respect of the RQFII Quota held by the Manager as a whole, including that utilised by the Sub-Fund through the Manager's RQFII Quota. Hence the ability of the Sub-Fund to make investments and/or repatriate monies from the Manager's RQFII Quota may be affected adversely by the investments, performance and/or repatriation of monies invested by other investors utilising any additional RQFII Quota obtained by the Manager (including any RQFII Quota managed by the Manager) in the future.

In addition, any repatriation of monies by the Sub-Fund to meet obligations such as the payment of fees may adversely impact the ability of the Sub-Fund to repatriate monies to meet Unitholders' redemption requests.

There can be no assurance that the Sub-Fund will be able to obtain access to a sufficient RQFII Quota to meet all proposed investments to be made by the Sub-Fund or that the investments of the Sub-Fund can be realised in a timely manner due to possible adverse changes in relevant laws or regulations relating to the Manager's RQFII Quota which will hinder the Sub-Fund's ability to pursue the investment objectives or result in loss under extreme circumstances. Should the Manager lose its RQFII status or retire or be removed, or the Manager's RQFII Quota be revoked or reduced, the Sub-Fund may not be able to invest in RQFII Permitted Securities through the Manager's RQFII Quota, and the Sub-Fund may be required to dispose of its holdings, which would likely have a material adverse effect on the Sub-Fund.

- (iii) ***Manager's RQFII Quota limitation:*** The Manager's RQFII Quota currently allocated exclusively to the Trust is in the amount of RMB 1.1 billion. A RQFII has the flexibility to allocate its RQFII quota across different public fund products under its management. The Sub-Fund does not have exclusive use of all the investment quota of the RQFII. There can be no assurance that sufficient RQFII quota can be allocated to the Sub-Fund to meet all application for subscriptions to the Sub-Fund. It is possible that the Sub-Fund may not be able to accept additional subscriptions due to this limitation and would not be able to achieve further economies of scale or otherwise take advantage of the increased capital base.
- (iv) ***Custody:*** Any RQFII Permissible Securities acquired by the Sub-Fund through the Manager's RQFII Quota will be maintained by the PRC Sub-Custodian and will be registered for the sole benefit and use of the Sub-Fund subject to applicable laws.

There will be segregation of assets by the PRC Sub-Custodian such that the assets of the Sub-Fund will not form part of the assets of the Manager as RQFII or the PRC Sub-Custodian.

However, subject to the investment regulations, the Manager could be the party entitled to the securities in such securities trading account (albeit that this entitlement does not constitute an ownership interest or preclude the Manager purchasing the securities on behalf of the Sub-Fund), such securities may be vulnerable to a claim by a liquidator of the Manager and may not be as well protected as if they were registered solely in the name of the Sub-Fund. In particular, there is a risk that creditors of the Manager may incorrectly assume that the Sub-Fund's assets belong to the Manager and such creditors may seek to gain control of the Sub-Fund's assets to meet the Manager's liabilities owed to such creditors.

- (v) ***PRC Securities Brokers and best execution:*** The Sub-Fund may have difficulty in obtaining best execution of transactions in RQFII Permitted Securities. The Sub-Fund will use PRC brokers appointed by the Manager to execute transactions in the PRC markets for the account of the Sub-Fund. Due to operational constraints and until these are removed, the market practice currently allows only three Chinese brokers to be used per stock exchange in the PRC. If a PRC broker offers the Sub-Fund standards of execution which the Manager reasonably believes to be amongst best practice in the PRC marketplace, the Manager may determine that they should consistently execute transactions with that PRC broker (including where it is an affiliate) notwithstanding that they may not be executed at the best price and shall have no liability to account to the Sub-Fund in respect of the difference between the price at which the Sub-Fund executes transactions and any other price that may have been available in the market at that relevant time.
- (vi) ***Limits on redemption:*** Where the Sub-Fund is invested in the securities market in mainland China by investing through the Manager's RQFII Quota, repatriation of funds from mainland China may be subject to the RQFII Regulations in effect from time to time. Currently there is no regulatory prior approval requirement for repatriation of funds from the Manager's RQFII Quota. However the relevant RQFII regulations are subject to uncertainty in their application and there is no certainty that no regulatory restrictions will apply to the repatriation of funds by the Sub-Fund in the PRC in the future. Accordingly, the investment regulations and/or the approach adopted by SAFE in relation to the repatriation may change from time to time.

Please note that redemptions on any Dealing Day are subject to redemption restrictions described in the Offering Memorandum (including suspension of redemption and/or delay of payment of redemption monies) and in case of repatriation restrictions being imposed in the future, it is possible that the Manager may not resume acceptance of redemption request and/or make payment of redemption monies for as long as the time required for repatriation of funds from the Manager's RQFII Quota subject to regulatory restrictions in the PRC.

For each RQFII Quota approved by SAFE, the relevant RQFII is required to utilize the RQFII Quota effectively within one year from the SAFE approval date. If the RQFII fails to utilize the RQFII Quota effectively, SAFE could reduce or revoke the RQFII Quota depending on the circumstances. As utilization of the Manager's RQFII Quota will depend on the subscription level of the Sub-Fund and redemptions

by investors of the Sub-Fund might result in the Manager's RQFII Quota being reduced or lost permanently.

- (vii) ***Investment restrictions:*** Besides the Manager's RQFII Quota which is used currently exclusively by the Trust, the Sub-Fund, other sub-funds of the Trust or other products managed by the Manager may share the RQFII Quota; in addition, besides the Manager's RQFII Quota which is used exclusively by the Sub-Fund, the Manager may obtain additional RQFII Quotas in the future which could be utilised by other public fund products or entities. Violations of the RQFII Regulations by the Manager or arising out of the activities relating to the use of any RQFII Quota granted to the Manager (including the Manager's RQFII Quota) could result in the revocation of or other regulatory action in respect of such RQFII Quota or all RQFII Quotas granted to the Manager, which could directly impact the Sub-Fund.
  
- (viii) ***Disclosure of interests and short swing profit rule:*** Under the PRC disclosure of interest requirements, the Sub-Fund may be deemed to be acting in concert with other funds managed within the Manager's group or a substantial shareholder of the Manager's group and therefore may be subject to the risk that the Sub-Fund's holdings may have to be reported in aggregate with the holdings of such other funds mentioned above should the aggregate holding triggers the reporting threshold under the PRC law, currently being 5% of the total issued shares of the relevant PRC listed company. This may expose the Sub-Fund's holdings to the public with an adverse impact on the performance of the Sub-Fund.
  
- (i) **Risk associated with PRC tax:** The tax law and regulations of the PRC may change any time, and they may be changed with retrospective effect. The interpretation and applicability of the tax laws and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from location to location.

The value of the Sub-Fund's investments through the Manager's RQFII Quota (and hence the Net Asset Value of the Sub-Fund) will be affected by taxation levied against the Manager as RQFII in respect of the Sub-Fund's investments within the Manager's RQFII Quota, which the Sub-Fund will be required to reimburse the Manager. PRC taxation laws do not currently expressly address the treatment of RQFIIs and investment made within RQFII Quotas. This being the case, PRC tax may be levied based on the general provisions in PRC tax laws. The value of the Sub-Fund's investment in the PRC and the amount of its income and gains could be adversely affected by an increase in rates of taxation or changes in the basis of taxation. Redemption proceeds or distributions may be paid to Unitholders without taking full account of tax that may be suffered by the Sub-Fund, which tax will subsequently be borne by the Sub-Fund and affect the Net Asset Value of the Sub-Fund and the remaining Units in the Sub-Fund.

In particular, the PRC tax authorities have not clarified whether income tax is payable on capital gains arising from securities trading of RQFIIs. Relevant tax authorities may in the future clarify the tax position and impose an income tax or withholding tax on realized gains by RQFIIs from dealing in RMB-Denominated Debt Instruments. In light of this uncertainty and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for the tax on such gains and withhold the tax for the account of the Sub-Fund. The Manager will at present make a provision of 10% for the account of the Sub-Fund in respect of any potential capital gains tax on dealings in RMB-Denominated Debt Instruments. Upon any future resolution of the above mentioned uncertainty or further changes to tax law or policies,

the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. The amount of any such tax provision will be disclosed in the accounts of the Sub-Fund. If there is a shortfall in the tax provision amount, the Net Asset Value of the Sub-Fund may be affected as the Sub-Fund will have to bear the additional tax liabilities.

If the actual applicable tax levied by PRC tax authorities is greater 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 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 levied by PRC tax authorities is less than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed the Units before PRC tax authorities' 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 can be returned to the account of the Sub-Fund as assets thereof.

The Sub-Fund may or may not be subject to business tax. The PRC tax authorities have not clarified whether the specific business tax exemption for capital gains derived by QFIIs is extended to cover RQFIIs. Relevant tax authorities may in the future issue specific tax circular to extend the business tax exemption for QFIIs to cover RQFIIs.

## 5. **Subscription for, redemption, transfer and conversion of Units**

- (a) ***Classes of Units:*** There are two (2) designated classes of Units in the Sub-Fund. Class A Units (available in RMB Class Currency) are available for sale to all members of the public in Hong Kong whilst Class I Units (available in RMB Class Currency), are only available to professional investors in Hong Kong (as defined in the SFO). The terms of Class A Units is set out in the relevant Schedules to this Supplement.
- (b) ***Minimum subscription and minimum holding:*** The initial minimum subscription amount that must be subscribed for the Units is RMB10,000 with a subsequent minimum subscription of RMB10,000. The minimum holding of Units is RMB10,000. The Manager may, at its discretion, waive or modify these minimum limits.
- (c) ***Extension of Initial Offering Period or postponement to launch of the Sub-Fund:*** The Manager may either extend the Initial Offering Period or postpone the launch of the Sub-Fund if the total subscription amount received during the Initial Offering Period is less than RMB 30 million. If the Manager determines to postpone the launch of the Sub-Fund, subscription monies paid by the applicants will be returned without interest, within seven (7) Business Days from the date of such determination, by cheque or by telegraphic transfer to the bank account from which the monies originated, at the risk and expense of the applicants or in such other manner as may be determined by the Manager.
- (d) ***Closing or suspension of subscription:*** The Manager may close or suspend for further subscriptions for the Units in the Sub-Fund without any prior notice if the total Net Asset Value of the Sub-Fund reaches the RQFII Quota allocated to the Manager as a RQFII by the SAFE under the RQFII Regulations has been used up, whether this occurs during the Initial Offering Period or during the life of the Sub-Fund.
- (e) ***Dealing deadline:*** The Dealing Deadline is 4:00p.m. (Hong Kong time) on the relevant Dealing Day. An Authorised Distributor may impose an earlier cut-off time before the

Dealing Deadline for receiving instructions for subscriptions, redemptions or conversions. Investors should confirm the arrangements with the Authorised Distributor concerned.

- (f) **Subscription, redemption, transfer and conversion of Units:** For details regarding the procedures for subscription, redemption and conversion of Units, see the section entitled "SUBSCRIPTIONS, REDEMPTIONS AND TRANSFERS" in the Offering Memorandum.

## 6. Valuation and prices

- (a) **Base Currency:** The reference currency of the Sub-Fund is RMB.
- (b) **Publication of prices:** The latest Subscription Price and Redemption Price for Class A Units will be published daily in Hong Kong in the South China Morning Post and the Hong Kong Economic Journal and will be available from the Manager upon request.

## 7. Distributions

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made on a quarterly basis (commencing on the fourth month from the close of the Initial Offering period) in Class Currency. There is no guarantee of such regular distributions and, if any distribution is made, the amount to be distributed. It is the current intention of the Manager that only the net income (the income net of expenses) for the Sub-Fund may be distributed. No distribution will be paid out of the Sub-Fund's capital.

## 8. Taxation – PRC

By investing in RMB-Denominated Debt Instruments issued by tax residents in the PRC, a Sub-Fund may be subject to withholding and other taxes imposed in the PRC.

### (a) **Corporate Income Tax (CIT)**

The Manager intend to manage and operate the Sub-Fund in such a manner that the Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with an establishment or place of business in the PRC for CIT purposes, although this cannot be guaranteed.

If the Trust or the relevant Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to PRC CIT at 25% on its worldwide taxable income. If the Trust or the relevant Sub-Fund is a non-PRC tax resident without a PE in the PRC, the income derived by it from the investment in RMB-Denominated Debt Instruments would in general be subject to 10% PRC withholding income tax ("WIT") in the PRC, unless exempt or reduced under specific tax circulars or relevant tax treaty.

- (i) **Interests / dividends:** Interests derived from government bonds issued by the in-charge Finance Bureau of the State Council, shall be exempted from PRC income tax under the CIT Law.

Unless a specific exemption is applicable, for recipients that are treated as non-residents in PRC and have not created an establishment or place of business (PE) in the PRC or have created a PE in the PRC but its income is not effectively connected with such PRC PE, under the CIT Law, a withholding income tax is levied on the payment of interests on those debt instruments, including bonds issued by enterprises established within the PRC. The general rate applicable is 10% (for non-residents).

The entity distributing such dividend or interests is required to withhold WIT. If the RQFII or foreign corporate investor is a tax resident of a tax treaty country, it may apply for the reduced PRC WIT rate under the relevant tax treaty. Under the avoidance of double taxation arrangement between China and Hong Kong (the “Arrangement”), the WIT charged on interests received by the non-resident holders of debt instruments (including enterprises and individuals) will be 7% of the gross amount of the interests, if the Hong Kong tax residents are the beneficial owners under the Arrangement, subject to the approval of the PRC tax authorities. However, there are still uncertainties as to how the PRC tax authorities will assess the beneficial ownership for investment fund cases; it is uncertain whether the relevant Sub-Fund can obtain approval from the PRC tax authorities for this preferential rate. In order to qualify for this preferential rate, the Manager will further assess and seek to apply for approval from the PRC tax authorities in relation to the relevant Sub-Fund, although this cannot be guaranteed. If the relevant approval is not obtained, the general WIT rate of 10% will be applicable to the relevant Sub-Fund on interests.

On the other hand, interests derived from government bonds issued by the in-charge Finance Bureau of the State Council are exempt from PRC CIT under the PRC CIT Law.

- (ii) *Capital gains*: Under the prevailing CIT Laws, assuming no PRC PE is created, capital gains derived from disposal of RMB-Denominated Debt Instruments issued by PRC Companies may be subject to the withholding income tax (**WIT**) at 10%.

Under the general provisions of the PRC CIT 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 exempted or reduced under relevant tax treaties.

- (b) ***Business Tax (BT) and surtaxes***: The revised PRC Provisional Regulations of Business Tax (**BT Law**) which came into effect on 1 January 2009 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%.

Caishui [2005] 155 states that gains derived by QFIIs from the trading of Chinese securities (including A-Shares and other PRC listed securities) are exempted from BT. The new PRC BT law which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Offering Memorandum. However, it is not very clear that whether similar exemption would be extended to RQFIIs.

However, for marketable securities other than those trading under QFIIs, the new BT law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities.

The new BT law does not specifically exempt BT on interest earned by non-financial institution. Hence, interest on both government and corporate bonds in theory should be subject to 5% BT.

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), education surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the business tax liabilities, effected from 1 December 2010.

- (c) **Tax Provision:** It is the intention of the Manager to operate the affairs of the Manager and the Sub-Fund such that they are not PRC tax resident enterprises and have no PE in the PRC for PRC corporate income tax purposes, although this cannot be guaranteed.

The Manager will at present make a provision of 10% for the Sub-Fund in respect of any potential WIT on capital gains and may make relevant provision on interest or dividend income if the WIT is not withheld at source at the time when such income is received. Upon any future resolution of the above-mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. The amount of any such tax provision will be disclosed in the accounts of the Sub-Fund. It should be noted that the actual applicable tax rates imposed by SAT may be different and may change from time to time. There is a possibility of the rules being changed and the 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 on gains derived from investments held by the Sub-Fund. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such capital gains will be taxed, the level of provision and when they subscribed for and/or redeemed their Units in the Sub-Fund. 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 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 investors will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, investors who have redeemed the Units before any SAT 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 investors 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.

**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 the execution or receipt in China of certain documents, including loan contracts; contracts for the sale of China A-shares traded on the PRC stock exchanges. .

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is a possibility that the current tax laws, regulations and practice in the PRC will be changed with retrospective effect in the future and any such change may have an adverse effect on the asset value of the Sub-Fund. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC which the Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

## SCHEDULE

### Information on Class A Units

<b>Eligibility</b>	All members of the public in Hong Kong and such other persons that fall within the definition of Eligible Investors
<b>Class Currency</b>	RMB
<b>Initial Offering Period</b>	9:00 a.m. (Hong Kong time) on [●] and ends at 4:00 p.m. (Hong Kong time) on [●]
<b>Initial Subscription Price</b>	RMB 100 (exclusive of Subscription Fee)
<b>Dealing Day</b>	Every Business Day
<b>Dealing Deadline</b>	4:00 p.m. (Hong Kong time) on each Dealing Day (note that dealing deadline maybe different if subscription applications or redemption requests are placed with an Authorised Distributor or through electronically or other authorised means as determined by the Manager from time to time)
<b>Subscription Fee</b>	Up to 3% of the Subscription Price per Unit
<b>Redemption Fee</b>	Nil
<b>Conversion Fee</b>	Up to 1% on the Subscription Price per Unit in the new class
<b>Minimum Initial Subscription</b>	RMB Class A: RMB10,000
<b>Minimum Subsequent Subscription</b>	RMB Class A: RMB10,000
<b>Minimum Holding</b>	RMB Class A: RMB10,000
<b>Minimum Redemption</b>	RMB Class A: RMB10,000
<b>Management Fee</b>	Up to 1.2% on the Net Asset Value of the Sub-Fund per annum
<b>Trustee Fee</b>	Up to 0.175% of the Net Asset Value of the Sub-Fund per annum, subject to a minimum monthly fee of RMB 40,000

<b>Global Custody Fees</b>	Up to 0.10% of the Net Asset Value of the Sub-Fund per annum, and inclusive of the custody fees payable to the PRC Sub-Custodian
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