

## **E FUND INVESTMENT FUND SERIES**

- *E Fund (HK) RMB Fixed Income Fund<sup>1</sup>*
- *E Fund (HK) Greater China US Dollar Bond Fund*

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## **EXPLANATORY MEMORANDUM**

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March 2023

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<sup>1</sup> This Sub-Fund is currently in the process of termination, pending PRC tax settlement and clearance, and will no longer accept subscriptions.

## **IMPORTANT INFORMATION FOR INVESTORS**

This Explanatory Memorandum comprises information relating to E Fund Investment Fund Series, an open-ended unit trust established as an umbrella fund under the laws of Hong Kong by a trust deed dated 18 January 2012 between E Fund Management (Hong Kong) Co., Limited as manager and Bank of Communications Trustee Limited as trustee.

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum and the Product Key Facts Statement of each sub-fund, and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement in this Explanatory Memorandum and the Product Key Facts Statement of each sub-fund misleading. However, neither the delivery of this Explanatory Memorandum and the Product Key Facts Statement of each sub-fund nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum or the latest available Product Key Facts Statement is correct as of any time subsequent to such date. This Explanatory Memorandum and the Product Key Facts Statement may from time to time be updated. Intending applicants for Units should ask the Manager if any supplements to this Explanatory Memorandum or any later Explanatory Memorandum and the Product Key Facts Statement have been issued.

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

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

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

In particular:-

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

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

**Investment involves risk and investors should note that losses may be sustained on their investment. There is no assurance that the investment objective of the respective Sub-Fund(s) will be achieved. Investors should consider the section headed “Risk Factors” and the section headed “Specific Risk Factors” in the Appendix, before investing in the Sub-Fund(s).**

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

### **Enquiries or Complaints**

Investors may contact the Manager by the following means if they have any enquiries or complaints in relation to any Sub-Fund:-

- By writing to Suites 3501-02, 35/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

- By calling the Manager's hotline at 3929-0988

The Manager will aim to respond by phone or in writing within 30 Business Days of receiving the enquiry or complaint.

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## ADMINISTRATION

### Manager

E Fund Management (Hong Kong) Co.,  
Limited  
Suites 3501-02, 35/F  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

### Directors of the Manager

MA Jun  
CHEN Rong  
LOU Lizhou  
WU Xinrong  
YANG Dongmei  
FAN Yue  
Gaohui HUANG

Second  
Addendum;  
Third  
Addendum

### Trustee and Registrar

Bank of Communications Trustee Limited  
1/F, Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

### RQFII Custodian

Bank of Communications Co., Ltd.  
188 Yin Cheng Zhong Road  
Shanghai 200120  
The People's Republic of China

### Auditors

PricewaterhouseCoopers  
21/F Edinburgh Tower  
15 Queen's Road Central  
Hong Kong

### Solicitors to the Manager

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

## DEFINITIONS

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

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Accounting Date”</b>        | Means 31 December in each year or such other date or dates in each year as the Manager may from time to time specify in respect of any Sub-Fund and notify to the Trustee and the Unitholders of such Sub-Fund                                                                                                                                                                                                                                                                  |
| <b>“Accounting Period”</b>      | Means a period commencing on the date of establishment of the relevant Sub-Fund or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund                                                                                                                                                                                                                                                   |
| <b>“Authorised Distributor”</b> | Means any person appointed by the Manager to distribute Units of some or all of the Sub-Funds to potential investors                                                                                                                                                                                                                                                                                                                                                            |
| <b>“Business Day”</b>           | Means a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise |
| <b>“China” or “PRC”</b>         | Means the People’s Republic of China excluding Hong Kong, Macau and Taiwan for purpose of this document                                                                                                                                                                                                                                                                                                                                                                         |
| <b>“China A-Shares”</b>         | Means shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in Renminbi and available for investment by domestic (Chinese) investors, holders of the Renminbi qualified foreign institutional investors (RQFII) status and foreign strategic investors approved by the China Securities Regulatory Commission                                                                                                                 |
| <b>“Code”</b>                   | Means the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit                                                                                                                                                                                                                                                                                                                                                      |

Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the SFC, as may be amended from time to time

**“connected person”**

Means, in relation to the Manager:

- (a) any person, company or fund beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of the Manager or being able to exercise, directly or indirectly, 20% or more of the total votes in the Manager; or
- (b) any person, company or fund controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which the Manager forms part; or
- (d) any director or officer of the Manager or of any of its connected persons as defined in (a), (b) or (c) above

**“Dealing Day”**

Means such days as described in the Appendix for the relevant Sub-Fund(s)

**“Dealing Deadline”**

Means such time on the relevant Dealing Day or on such other Business Day as the Manager may from time to time with the approval of the Trustee determine, as described in the Appendix for the relevant Sub-Fund(s)

**“Explanatory Memorandum”**

Means this Explanatory Memorandum including the Appendices, as each may be amended, updated or supplemented from time to time

**“Fund”**

Means E Fund Investment Fund Series

**“Government and other**

Means any investment issued by, or the payment of principal and

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|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>public securities”</b>                | interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies                                                                                                                                                                                                                                                                                             |
| <b>“Gross Asset Value”</b>               | Means the official gross asset value of a Sub-Fund calculated and provided by the Trustee at the end of each month, and will also mean the Net Asset Value (NAV) of a Sub-Fund before the deduction of any performance, management and administrative fees                                                                                                                                                                                              |
| <b>“Hong Kong”</b>                       | Means Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>“HK\$” or “HKD”</b>                   | Means Hong Kong Dollars, the lawful currency of Hong Kong                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>“Issue Price”</b>                     | Means in respect of each Sub-Fund the issue price per Unit as more fully described in the section “Purchase of Units”                                                                                                                                                                                                                                                                                                                                   |
| <b>“Manager”</b>                         | Means E Fund Management (Hong Kong) Co., Limited                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>“Net Asset Value”</b>                 | Means the net asset value of the Fund or a Sub-Fund or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation”                                                                                                                                                                                                                                   |
| <b>“PRC Securities”</b>                  | Means PRC shares (including China A-Shares, China B-Shares and China H-Shares), Renminbi denominated corporate and government bonds, securities investment fund and warrants listed on any stock exchanges (including but not limited to stock exchanges in the PRC, Hong Kong, Singapore, London and the United States)                                                                                                                                |
| <b>“Qualified Exchange Traded Funds”</b> | Means exchange traded funds that are: <ul style="list-style-type: none"> <li>(a) authorized by the SFC under 8.6 or 8.10 of the Code; or</li> <li>(b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and either (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable</li> </ul> |

requirements under 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code

|                                            |                                                                                                                                                                                                               |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“Redemption Price”</b>                  | Means the price at which Units will be redeemed as more fully described in the section headed “Redemption of Units”                                                                                           |
| <b>“Registrar”</b>                         | Means Bank of Communications Trustee Limited in its capacity as registrar of the Fund                                                                                                                         |
| <b>“REITs”</b>                             | Means real estate investment trusts                                                                                                                                                                           |
| <b>“reverse repurchase transactions”</b>   | Means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future                   |
| <b>“RMB” or “Renminbi”</b>                 | Means renminbi, the lawful currency of the PRC                                                                                                                                                                |
| <b>“RQFII”</b>                             | Means a Renminbi qualified foreign institutional investor approved pursuant to the relevant PRC laws and regulations, as may be promulgated and/or amended from time to time                                  |
| <b>“RQFII Custodian”</b>                   | Means Bank of Communications Co., Ltd.                                                                                                                                                                        |
| <b>“sale and repurchase transactions”</b>  | Means transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future |
| <b>“securities financing transactions”</b> | Means collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions                                                                                      |
| <b>“securities lending transactions”</b>   | Means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee                                                                                             |
| <b>“SFC”</b>                               | Means the Securities and Futures Commission of Hong Kong                                                                                                                                                      |

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>“SFO”</b>                               | Means the Securities and Futures Ordinance, Laws of Hong Kong (Chapter 571)                                                                                                                                                                                                                                                                                                                                  |
| <b>“Sub-Fund”</b>                          | Means a separate pool of assets of the Fund that is invested and administered separately                                                                                                                                                                                                                                                                                                                     |
| <b>“substantial financial institution”</b> | Means an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency as amended by the Commission's Code on Unit Trusts and Mutual Funds from time to time |
| <b>“Trust Deed”</b>                        | Means the trust deed establishing the Fund as more fully described in the section headed “Trust Deed”                                                                                                                                                                                                                                                                                                        |
| <b>“Trustee”</b>                           | Means Bank of Communications Trustee Limited in its capacity as trustee of the Fund                                                                                                                                                                                                                                                                                                                          |
| <b>“Unit”</b>                              | Means a unit in a Sub-Fund                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>“Unitholder”</b>                        | Means a person registered as a holder of a Unit                                                                                                                                                                                                                                                                                                                                                              |
| <b>“US\$” or “USD”</b>                     | Means the lawful currency of the United States of America                                                                                                                                                                                                                                                                                                                                                    |
| <b>“Valuation Day”</b>                     | Means such days as described in the Appendix for the relevant Sub-Fund                                                                                                                                                                                                                                                                                                                                       |
| <b>“Valuation Point”</b>                   | Means such time as described in the Appendix for the relevant Sub-Fund to calculate the Net Asset Value                                                                                                                                                                                                                                                                                                      |

## INTRODUCTION

E Fund Investment Fund Series is a unit trust established pursuant to the Trust Deed and governed by the laws of Hong Kong. All Unitholders are entitled to the benefit of, are bound by and deemed to have notice of the provisions of the Trust Deed.

The Manager may create further Sub-Funds in the future. Investors should contact the Manager to obtain the latest offering document relating to the available Sub-Fund(s).

Multiple classes of Units may be issued in respect of each Sub-Fund and the Manager may create additional classes of Units for any Sub-Fund(s) in its sole discretion in the future. The assets of a Sub-Fund will be invested and administered separately from the assets of the other Sub-Fund(s) issued. The details of the Sub-Fund(s) and/or the new class or classes of Units related thereto that are on offer are set out in the Appendices to this Explanatory Memorandum.

## INVESTMENT OBJECTIVE

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

## MANAGEMENT AND ADMINISTRATION OF THE FUND

### **The Manager**

The Manager of the Fund is E Fund Management (Hong Kong) Co., Limited.

The Manager was incorporated with limited liability in August 2008 in Hong Kong and is licensed to conduct Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) Regulated Activities under Part V of the SFO with CE number ARO593. It is principally engaged in fund management and the provision of investment advisory services to corporations, institutions and individual investors.

The Manager is a wholly owned subsidiary of E Fund Management Co., Limited which was established on 17 April 2001. The parent company of the Manager is a fund management company licensed with China Securities Regulatory Commission and at the end of March 2020, assets under the parent company of the Manager's management exceeded RMB1.5 trillion, making it as one of the largest asset managers in China, and is also qualified for managing investment portfolios for both the

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| Second<br>Addendum |
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National Council for Social Security Fund and Ministry of Labour and Social Security of China Decree 23 compliant enterprise annuity schemes.

The Manager undertakes the management of the assets of the Fund and retains discretionary powers in the management of a Sub-Fund unless otherwise specified in the relevant Appendix. The Manager may appoint sub-manager(s) or investment adviser(s) in relation to specific Sub-Fund(s). Unitholders shall be given not less than one month's prior notice should there be any new appointments of any sub-manager(s) or investment adviser(s) with discretionary investment powers. The remuneration of such sub-manager(s) and investment adviser(s) will be borne by the Manager.

Details of the directors of the Manager are as follows:-

### **Ma Jun**

Mr. Ma Jun, Master of Business Administration (EMBA). He is currently the Executive Vice President of E Fund Management Co., Ltd., member of the Fixed Income Investment Committee, the Chairman of E Fund Management (Hong Kong) Co., Ltd., the Person-in-Charge of RMB Qualified Foreign Investor (RQFII) business, Responsible Officer (RO) of dealing in securities, Responsible Officer (RO) of advising on securities, Responsible Officer (RO) of asset management, and member of Product Approval Committee. Mr Ma has previously served under the Sales Department of Junan Securities Co., Ltd., he has also served as Deputy General Manager of the Investment Department of Shenzhen Zhongda Investment Co., Ltd., Analyst of GF Securities Co., Ltd. He has also served various roles in E Fund Management Co., Ltd. as Fund Manager, General Manager of the Fixed Income Department, General Manager of the Cash Management Department, and General Manager of the Fixed Income Head Office, Assistant to the President, Director of Fixed Income Department, Chief Investment Officer of Fixed Income. He was also Director of E Fund Asset Management Co., Ltd.

Second  
Addendum;  
Third  
Addendum

### **Chen Rong**

Ms. Chen Rong, PhD in Economics. She is currently a Deputy General Manager-level senior management of E Fund Management Co., Ltd., Director of E Fund International Holdings Co., Ltd., Director of E Fund Management (Hong Kong) Co., Ltd., Supervisor of E Fund Asset Management Co., Ltd., and Supervisor of E Fund Overseas Investment (Shenzhen) Co., Ltd. Ms. Chen has previously served under the Statistical Research Department of the People's Bank of China Guangzhou Branch, she has also served various roles in E Fund Management Co., Ltd. as Manager of the Operation Support Department, Assistant to the General Manager of the Accounting Department, Deputy General Manager of the Accounting Department, General Manager of the Accounting Department, General Manager of the Investment Risk Management Department, Assistant to the President, Secretary of the board of directors, Director of Financial Centre of the company.

### **Lou Lizhou**

Ms. Lou Lizhou, Master of Business Administration (EMBA), Master of Economics. She is currently the Deputy General Manager-level senior management of E Fund Management Co., Ltd., member of the FOF Investment Committee, the Chairman of E Fund Asset Management Co., Ltd. and Director of

E Fund Management (Hong Kong) Co., Ltd. Ms. Lou has previously served various roles in United Securities Co., Ltd. as Analyst of the Securities Business Department, Analyst of the Research Department, Senior Manager of the Brokerage Business Department. She has also served various roles in E Fund Management Co., Ltd. as the Manager of the Sales Support Center, the Assistant General Manager of the Marketing Department, the Deputy General Manager of the Marketing Department, and the General Manager of Guangzhou branch, the Manager of Beijing branch, Assistant to President, General Manager of E Fund Asset Management Co., Ltd.

### **Wu Xinrong**

Mr. Wu Xinrong, Master of Engineering. He is currently the Executive Vice President of E Fund Management Co., Ltd., member of the Equity Investment Committee, and Director of E Fund Management (Hong Kong) Co., Ltd. Mr. Wu has previously served various roles in E Fund Management Co., Ltd. as Analyst, Manager of Investment Management Department, Fund Manager, Deputy General Manager of the Fund Investment Department, Deputy General Manager of the Research Department, General Manager of the Research Department, General Manager of the Fund Investment Department, General Manager of the Public Fund Investment Department, General Manager of the Equity Investment Head Office, Assistant to the President, Director of Equity Investment Department, Director of E Fund International Holdings Co., Ltd.

### **Yang Dongmei**

Ms. Yang Dongmei, Master of Business Administration and Master of Economics. She is currently a Deputy General Manager-level senior management, Secretary of the Board of Directors, General Manager of the Marketing Department, General Manager of the Global Investment Department of E Fund Management Co., Ltd., and the Director of E Fund Management (Hong Kong) Co., Ltd. She has previously served various roles in GF Securities Co., Ltd. under the Investment and Finance Department and was Head of Market Research Department of the Development Research Center. She has also served as Senior Researcher of the Research Department under China Southern Securities Co. Ltd. She has also served under China Merchants Fund Management Co., Ltd as Senior Manager of Institutional Wealth Management Department and Senior Manager of Equity Investment Department. She has also served various roles in E Fund Management Co., Ltd. as Marketing Specialist, Assistant General Manager of Marketing Department and Vice General Manager of Marketing Department.

### **Fan Yue**

Mr. Fan Yue, Master of Business Administration. Mr. Fan is currently Deputy General Manager-level senior management and the Director of E Fund Management (Hong Kong) Co., Ltd. He has served in the Shenzhen Branch of the Industrial and Commercial Bank of China under International Business Department as section member, Office Manager and the Manager of the International Department of the China Securities Depository and Clearing Co.,Ltd. Shenzhen Branch. He has also served under the

Shenzhen Stock Exchange as Assistant Director of the Beijing Center, Deputy Director of the Listing Department, Deputy Director of the Fund and Bond Department.

### **Gaohui Huang**

Ms. Huang Gaohui, MBA degree in Finance. Ms. Huang has eighteen years' financial industry experience. Prior to joining E Fund Management (Hong Kong) Co., Limited, Ms. HUANG was a Marketing Manager at Guotai Junan Securities Co., Ltd. and Head of Institutional Sales at Century Securities Co., Ltd. Ms. Huang moved to Hong Kong in January 2012 and she is the Chief Executive Officer for E Fund Management (Hong Kong) Co., Limited with responsibility for developing its business.

### **The Trustee**

Bank of Communications Trustee Limited is the Trustee of the Fund and is registered as a trust company in Hong Kong. Bank of Communications Trustee Limited is a wholly-owned subsidiary of Bank of Communications Co., Ltd. Bank of Communications Trustee Limited provides a broad range of customised services, including trustee services, retirement services, custodian services, will and estate administration services and other financial services.

Under the Trust Deed, the Trustee shall take into custody or under its control all the investments, cash and other assets forming part of the assets of each Sub-Fund and hold them in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and such investments, cash and other assets of the relevant Sub-Fund shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereto. The Trustee shall in respect of any investments or other assets of a Sub-Fund, which by nature cannot be held in custody, maintain a proper record of such investments or assets in its books under the name of that Sub-Fund. The Trustee is also responsible for monitoring the compliance by the Manager with the requirements of the Trust Deed and for the administration of the Fund and processing dealing requests in respect of Units in the Fund. The Trustee will keep the register of Unitholders of the Fund.

### **The RQFII Custodian**

For Sub-Fund(s) that invest in debt securities issued within the PRC, China A-Shares or other permissible investments in the PRC through Renminbi qualified foreign institutional investors (RQFII), the relevant RQFII is required to appoint a custodian in the PRC for the custody of the RQFII assets, pursuant to relevant laws and regulations. Bank of Communications Co.,

Ltd. has been appointed by the Manager as the RQFII Custodian in respect of the assets held by the relevant Sub-Fund(s).

Bank of Communications Co., Ltd. (“BoComm”), founded in 1908, is one of the oldest banks in China as well as one of the note-issuing banks in modern China. BoComm was listed on the Hong Kong Stock Exchange Limited in June 2005 and on the Shanghai Stock Exchange in May 2007. BoComm currently has 244 domestic branches (including Head Office) as at the end of 2019. BoComm has set up various overseas institutions, comprising of branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau and Ho Chi Ming City, Sydney, San Francisco, Taipei, Brisbane, Luxembourg, Brazil, Melbourne, Prague and Bank of Communications (UK) Co., Ltd., a wholly-owned subsidiary in London.

BoComm has extensive experience in custody of different kinds of financial products, and being the primary and/or secondary custodian for various large securities firms and fund houses in China or overseas.

### **The Authorised Distributor**

The Manager may appoint one or more Authorised Distributor(s) to distribute Units of one or more Sub-Funds, and to receive applications for subscription, redemption and/or switching of Units on the Manager’s behalf.

## **CLASSES OF UNITS**

Different classes of Units may be offered for each Sub-Fund. Although the assets attributable to each class of Units of a Sub-Fund will form one single pool, each class of Units may be denominated in a different currency or may have a different charging structure with the result that the Net Asset Value attributable to each class of Units of a Sub-Fund may differ. In addition, each class of Units may be subject to different minimum initial and subsequent subscription amounts and holding amounts, and minimum redemption and switching amounts. Investors should refer to the relevant Appendix for the available classes of Units and the applicable minimum amounts. The Manager may in its discretion agree to accept applications for subscription, redemption and switching of certain classes below the applicable minimum amounts.

## **DEALING DAY AND DEALING DEADLINE**

The Manager may from time to time with the approval of the Trustee determine generally or in relation to any particular jurisdiction the time on such Dealing Day or on such other Business Day (on which Units may from time to time be sold) prior to which instructions for subscriptions, redemptions or switching are to be received in order to be dealt with on a particular Dealing Day. The Dealing Days and the relevant Dealing Deadlines for each Sub-Fund are set out in the relevant Appendix.

Subscription, switching and redemption of Units may also be placed through Authorised Distributor(s) or through other authorised and/or electronic means as from time to time determined by the Manager. Investors should note that applications made through such means may involve different dealing procedures. Further, the Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadlines for receiving instructions for subscription, redemption or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned on the arrangements and dealing procedures that are applicable to them.

## **PURCHASE OF UNITS**

### **Initial Offer**

Details of the initial offer of Units are set forth in the Appendix relating to the relevant Sub-Fund.

### **Subsequent Subscription**

Following the close of the initial offer period, Units will be issued at the prevailing Issue Price per Unit. The Issue Price on any Dealing Day will be the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day divided by the number of such class of Units then in issue prior to any redemption or issue being effected on that Valuation Day, rounded down to 2 decimal places, unless otherwise provided in the Appendix relating to the relevant Sub-Fund. Any rounding adjustment shall be retained for the benefit of the relevant Sub-Fund. In calculating the Issue Price, the Manager may impose surcharges to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the total cost of acquiring such assets including other relevant expenses such as taxes, governmental charges, brokerages, etc.

Unless otherwise disclosed in the Appendix of a Sub-Fund, applications for subscription of any class of Units in a Sub-Fund (together with application moneys in cleared funds), if

received prior to the Dealing Deadline by the Authorised Distributors or the Trustee, and accepted by the Manager, will be dealt with on that Dealing Day. Applications received after the Dealing Deadline in relation to a Dealing Day will be held over until the next Dealing Day.

Units may not be issued during the period of any suspension of the determination of the Net Asset Value relating to such class of Units of a Sub-Fund (for details see the section below headed "Suspension of Calculation of Net Asset Value").

### **Application Procedure**

Application for Units should be made by completing the application form, which may be obtained from the Manager or the Authorised Distributors (the “**Application Form**”), and returning the Application Form to the Authorised Distributors in the manner as set out in the Application Form.

Where application for Units is made through an Authorised Distributor, Units may be registered in the name of a nominee company of the Authorised Distributor through whom the applicant applies for the Units. As a result of this arrangement, the applicant will be dependent on the person in whose name the applicant’s Units are registered to take action on his/her behalf.

Applications will generally be accepted on a Dealing Day only if cleared funds have been received by or on behalf of the Trustee on or prior to such Dealing Day in relation to which Units are to be issued. Notwithstanding the above and subject to the discretion of the Manager, a Sub-Fund may rely upon application orders received, even prior to receipt of application moneys, and may issue Units to investors according to such orders and invest the expected application amounts. If payment is not cleared within four (4) Business Days following the relevant Dealing Day (or such other date as the Manager with the approval of the Trustee shall determine and notify the relevant applicant at the time of receipt of the application), the Manager reserves the right to cancel the transaction. In such circumstances, an investor may be required to settle the difference between the prices at issue and at cancellation of the Units concerned and in addition the appropriate cancellation fees and charges.

The Application Form may also be sent by facsimile or any other electronic means as agreed by the Trustee and the Manager unless the original is required by the Manager or the Trustee. Investors should be reminded that if they choose to send the Application Forms by facsimile

or any other means as agreed by the Trustee and the Manager, they bear their own risk of such applications not being received. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss caused as a result of non-receipt or illegibility of any application sent by facsimile or any other means as agreed by the Trustee and the Manager or for any loss caused in respect of any action taken as a consequence of such instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile or any other transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of an application.

Each applicant whose application is accepted will be sent a contract note confirming details of the purchase of Units by ordinary post or any other transmission (at the risk of the person entitled thereto).

No certificates will be issued.

The Manager, at its discretion, is entitled to impose a preliminary charge of up to 3% on the Issue Price of each Unit, and the current rates are described in the relevant Appendix for each Sub-Fund. The Manager may retain the benefit of such charge or may re-allow or pay all or part of the preliminary charge (and any other fees received) to intermediaries or such other persons as the Manager may at its absolute discretion determine. The Manager (or such Authorised Distributor) also has discretion to waive the preliminary charge in whole or in part in relation to any subscription for Units whether generally or in a particular case.

### **Investment Minima**

Details of the minimum initial subscription, minimum holding, minimum subsequent subscription and minimum redemption amounts applicable to each class of Units in each Sub-Fund are set out in the relevant Appendix.

The Manager has the discretion to waive, change or accept an amount lower than the above amounts, whether generally or in a particular case.

## **Payment Procedure**

Subscription moneys should normally be paid in the relevant base currency or the class currency of such class of Units as determined by the Manager or the Trustee and as disclosed in the relevant Appendix. Unless otherwise specified in the relevant Appendix relating to a Sub-Fund and subject to the agreement of the Trustee or the Manager and to applicable limits on foreign exchange, arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the cost of currency conversion will be borne by the applicant.

All payments should be made by cheque, direct transfer, telegraphic transfer or banker's draft. Cheques and banker's drafts should be crossed "a/c payee only, not negotiable" and made payable to "Bank of Communications Trustee Limited– IFS Clients A/C", stating the name of the relevant Sub-Fund to be subscribed, and sent with the Application Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued until the cheque is cleared. Any costs of transfer of application moneys to a Sub-Fund will be payable by the applicant. Currency conversion will be subject to availability of the currency concerned.

Details of payments by telegraphic transfer are set out in the Application Form.

All application moneys must originate from an account held in the name of the applicant. No third party payments shall be accepted. The applicant should provide sufficient evidence of the source of payment.

**No money should be paid to any intermediary in Hong Kong who is not licensed by or registered with the SFC to conduct Type 1 (Dealing in Securities) regulated activity under Part V of the SFO.**

### **General**

All holdings will be held for the Unitholders in registered form and no certificates will be issued. Evidence of title will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Manager and the Trustee are informed of any change to the registered details.

Fractions of Units may be issued rounded down to the nearest 2 decimal places. Application moneys representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. The Manager reserves the right to reject any application in whole or in part. In the event that

an application is rejected, application moneys will be returned without interest by cheque through the post or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants, or in such other manner determined by the Manager. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption Procedure**

Unitholders who wish to redeem their Units may do so on any Dealing Day by submitting a redemption request to the Authorised Distributors or the Trustee and accepted by the Manager before the Dealing Deadline for the relevant Sub-Fund, as defined in the relevant Appendix. Unless otherwise stated in the Appendix of the relevant Sub-Fund, redemption requests received after the Dealing Deadline will be carried forward and dealt with on the next Dealing Day.

Partial redemptions may be effected subject to any minimum redemption amount for each class of Units of a Sub-Fund as disclosed in the relevant Appendix or as the Manager may determine from time to time whether generally or in a particular case.

If a request for redemption will result in a Unitholder holding Units in a class to the value of less than the minimum holding amount of that class as set out in the relevant Appendix of a Sub-Fund, the Manager may deem such request to have been made in respect of all the Units of that class held by that Unitholder. The Manager has the discretion to waive the requirement for a minimum holding of Units, whether generally or in a particular case.

A redemption request may be sent by facsimile or any other means as agreed by the Manager or the Trustee, unless the original is required by the Manager or the Trustee, and must specify (i) the name of the Sub-Fund and the value or number of Units to be redeemed (ii) the relevant class of Units to be redeemed (iii) the name(s) of the registered holder(s); and (iv) the payment instructions for the redemption proceeds. A redemption request in respect of Units registered in the name of a nominee company of an Authorised Distributor may be given by such Authorised Distributor in any such means as agreed by the Trustee and the Manager.

Investors should be reminded that if realisation requests are sent by facsimile or any other means as agreed by the Trustee and the Manager, they bear their own risk of the requests not being received or illegible. Investors should note that the Fund, the Sub-Funds, the Manager, the Trustee and their respective agents and delegates accept no responsibility for any loss

caused as a result of non-receipt or illegibility of any redemption request sent by facsimile or any other means as agreed by the Trustee and the Manager or for any loss caused in respect of any action taken as a consequence of such instructions believed in good faith to have originated from properly authorised persons. This is notwithstanding the fact that a facsimile or any other transmission report produced by the originator of such transmission discloses that such transmission was sent. Investors should therefore for their own benefit confirm with the Manager safe receipt of a request.

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

### **Payment of Redemption Proceeds**

The Redemption Price on any Dealing Day shall be the price per Unit ascertained by dividing the Net Asset Value of the relevant class of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units then in issue, prior to any redemption or issue being effected on that Valuation Day, rounded down to 2 decimal places, unless otherwise provided in the Appendix relating to the relevant Sub-Fund. Any rounding adjustment shall be retained by the relevant Sub-Fund. Such price shall be calculated in the base currency of the relevant Sub-Fund and quoted by the Manager in such base currency and in such other currency or currencies at the Manager's discretion (with prior notice to the Trustee) by converting such price to its equivalent in such other currency or currencies at the same rate as the Manager shall apply in calculating the Net Asset Value as at the Valuation Point. In calculating the Redemption Price, the Manager may impose deductions to compensate for the difference between the price at which assets of the relevant Sub-Fund are to be valued and the net proceeds which would be received on sale of such assets and for the relevant expenses such as taxes, governmental charges, brokerages, etc.

The Manager may at its option impose a redemption charge of up to 3% of the Redemption Price of the relevant class of Units to be redeemed. The redemption charge, if any, is described in the relevant Appendix. The Manager may on any day in its sole and absolute discretion differentiate between Unitholders as to the amount of the redemption charge to be imposed (within the permitted limit).

From the time of the calculation of the Redemption Price to the time at which redemption moneys are converted out of any other currency into the Base Currency of the relevant Sub-Fund, if there is an officially announced devaluation or depreciation of that other currency, the amount which would otherwise be payable to the redeeming Unitholder shall be reduced

as the Manager considers appropriate to take account of the effect of that devaluation or depreciation.

The amount due to a Unitholder on the redemption of a Unit pursuant to the paragraphs above shall be the Redemption Price per Unit, less any redemption charge and any rounding adjustment in respect thereof. The rounding adjustment aforesaid in relation to the redemption of any Units shall be retained as part of the relevant Sub-Fund. The redemption charge shall be retained by the Manager for its own use and benefit.

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless if required by the Trustee, the written original of the redemption request (in the required form) duly signed by the Unitholder has been received and (b) where redemption proceeds are to be paid by telegraphic transfer, the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

The Manager or the Trustee, as the case may be, may, in its absolute discretion, refuse to make a redemption payment to a Unitholder if (i) the Manager or the Trustee, as the case may be, suspects or is advised that the payment of any redemption proceeds to such Unitholder may result in a breach or violation of any anti-money laundering law by any person in any relevant jurisdiction or other laws or regulations by any person in any relevant jurisdiction, or such refusal is considered necessary or appropriate to ensure the compliance by the Fund, the Manager, the Trustee or its other service providers with any such laws or regulations in any relevant jurisdiction; or (ii) there is a delay or failure by the redeeming Unitholder in producing any information or documentation required by the Trustee and/or the Manager or their respective duly authorised agent for the purpose of verification of identity.

In the event that there is a delay in receipt by the Manager or the Trustee of the proceeds of redemption of the investments of the relevant Sub-Fund to meet redemption requests, the Manager or the Trustee may delay the payment of the relevant portion of the amount due on the redemption of Units. If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any redemption moneys payable to the holder of a Unit the amount of such withholding shall be deducted from the redemption moneys otherwise payable to such person.

Subject as mentioned above and so long as relevant account details have been provided, redemption proceeds will be paid in the base currency or the class currency of the relevant class of Units by direct transfer or telegraphic transfer, normally within 7 Business Days after the relevant Dealing Day (or as otherwise specified in the Appendix of the relevant Sub-Fund)

and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls), rendering the payment of the redemption money within the aforesaid time period not practicable. In such case, and subject to prior approval of the SFC, payment of redemption proceeds may be deferred, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s).

Unless the Manager and the Trustee otherwise agree, redemption proceeds will only be paid to a bank account that bears the name of the redeeming Unitholder. Subject to the agreement of the Manager, redemption proceeds may be paid to the redeeming Unitholder (or, in the case of joint Unitholders, either to all Unitholders or the first-named Unitholder as indicated by the relevant Unitholders on the Application Form) at the Unitholder's risk by cheque, usually in the Base Currency of the relevant Sub-Fund and sent to the redeeming Unitholder at the last known address (in the case of joint Unitholders, at the last known address of the first-named joint Unitholder) held in the records of the register of Unitholders.

Subject to the agreement of the Trustee or the Manager, and to applicable limits on foreign exchange, redemption proceeds can be paid in a currency other than the base currency of a Unit at the request and expense of the Unitholder. In such circumstances, the Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. None of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

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

## SWITCHING BETWEEN CLASSES

Unitholders have the right (subject to such limitations as the Manager after consulting with the Trustee may impose) to switch all or part of their Units of any class into Units of any other class by giving notice in writing to the Manager, the Trustee or the Authorised Distributors. A request for switching will not be effected if as a result the relevant holder would hold less than the minimum holding of Units of the relevant class prescribed by, or is prohibited from holding Units of the relevant class under, the relevant Appendix. Unless the Manager otherwise agrees, Units of a class can only be switched into Units of the same class of another Sub-Fund.

Units shall not be switched during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended.

Requests for switching received by the Authorised Distributor or the Trustee and accepted by the Manager prior to the Dealing Deadline for a Dealing Day will be dealt with on that Dealing Day. Neither the Manager nor the Trustee shall be responsible to any Unitholder for any loss resulting from the non-receipt of a request for switching or any amendment to a request for switching prior to receipt. Notices to switch may not be withdrawn without the consent of the Manager.

The rate at which the whole or any part of a holding of Units relating to a Class (the “**Existing Class**”) will be switched to Units relating to another Class (the “**New Class**”) will be determined in accordance with the following formula:

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

Where:

N is the number of Units of the New Class to be issued.

E is the number of Units of the Existing Class to be switched.

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

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

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

SF is a switching charge (if any).

The Manager has a right to impose a switching charge of up to 3% of the Issue Price of the Units of the New Class in relation to the switching of Units and the current rates are set out in the relevant Appendix.

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

If there is, at any time during the period from the time as at which the Redemption Price per Unit of the Existing Class is calculated and the time at which any necessary transfer of funds from the Existing Class to the New Class, a devaluation or depreciation of any currency in which any investment of the Existing Class is denominated or normally traded, the Redemption Price per Unit of the Existing Class shall be reduced as the Manager considers appropriate to take account of the effect of that devaluation or depreciation and the number of Units of the New Class which will arise from that switching shall be recalculated as if that reduced Redemption Price had been the Redemption Price ruling for redemption of Units in the Existing Class on the relevant Dealing Day.

### **Restrictions on redemption and switching**

The Manager may, after consultation with the Trustee, having regard to the best interests of the Unitholders, suspend the redemption or switching of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

Any Unitholder may at any time after such a suspension has been declared and before lifting of such suspension withdraw any request for the redemption of Units of such class by notice in writing to the Manager, the Trustee or the Authorised Distributors.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation of Units) to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders of the relevant Sub-Fund who have validly requested to redeem Units of the same Sub-Fund on that Dealing Day will redeem the same proportion of such Units of that Sub-Fund provided that any holdings so requested to be redeemed being in aggregate of not more than 1% of the total number of Units of any Sub-Fund in issue may be redeemed in full if in the opinion of the Manager with the Trustee's approval the application of such limitation would be unduly onerous or unfair to the Unitholder or Unitholders concerned. Any Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, and will have priority on the next succeeding Dealing Day and all following Dealing Days (in relation to which the Manager has the same power) until the original request has been satisfied in full. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned within 7 days of such Dealing Day.

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

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

## **VALUATION**

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

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies or a commodity, and subject as provided in paragraph (g) below, all calculations based on the value of investments quoted, listed or dealt in on any stock

exchange, over-the-counter (“**OTC**”) market or securities market (“**Securities Market**”) shall be made by reference to the last traded price on the principal Securities Market for such investments, at or immediately preceding the Valuation Point, provided that if the Manager in its discretion, considers that the prices ruling on a Securities Market other than the principal Securities Market provide in all the circumstances a fairer criterion of value in relation to any such investment, it may adopt such prices with the approval of the Trustee; and 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 or sources as they may from time to time determine notwithstanding the prices used are not the last traded prices;

- (b) subject as provided in paragraphs (c) and (g) below, the value of each interest in any collective investment scheme shall be the net asset value per unit or share as at the same day, or if such collective investment scheme is not valued as at the same day, the last published net asset value per unit or share in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such unit or share at or immediately preceding the Valuation Point;
- (c) if no net asset value, bid and offer prices or price quotations are available as provided in paragraph (b) above, the value of the relevant investment shall be determined from time to time in such manner as the Manager shall determine with the approval of the Trustee;
- (d) the value of any investment which is not quoted, listed or normally dealt in on a Securities Market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and shall at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager and with the approval of the Trustee, any adjustment should be made to reflect the value thereof;
- (f) the value of futures contracts will be determined with reference to the contract value of the relevant futures contract, the amount required to close the relevant contract and the amount expended out of the relevant Sub-Fund in entering into the relevant contract;

- (g) notwithstanding the foregoing, 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 relevant circumstances, the Manager considers that such adjustment or use of such other method is required to reflect the fair value of the investment;
- (h) the value (whether of a borrowing, other liability, investment or cash) otherwise than in the base currency of a Sub-Fund shall be converted into the base currency at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange; and
- (i) where a third party is engaged in the valuation of the assets of a Sub-Fund, the Manager shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such third party in ensuring such entity possesses the appropriate level of knowledge, experience and resources is commensurate with the valuation policies and procedures for such Sub-Fund. The valuation activities of such third party shall be subject to ongoing supervision and periodic review by the Manager.

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

The Manager may, after consultation with the Trustee, having regard to the best interests of Unitholders, 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 by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or the Net Asset Value of the relevant Sub-Fund or the Issue Price or Redemption Price per Unit; or
- (b) for any other reason the prices of a substantial part of the investments held or contracted for by the Manager for the account of that Sub-Fund cannot, in the opinion of the Manager after consultation with the Trustee, reasonably, promptly or fairly be ascertained; or

- (c) circumstances exist as a result of which, in the opinion of the Manager after consultation with the Trustee, it is not reasonably practicable to redeem 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 Sub-Fund; or
- (d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of that Sub-Fund or the issue or redemption of Units of the relevant class in the Sub-Fund is delayed or cannot, in the opinion of the Manager after consultation with the Trustee, be carried out promptly at normal rates of exchange; or
- (e) when a breakdown in the systems and/or means of communication usually employed in ascertaining the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit takes place or when for any other reason the value of a substantial part of the investments or other assets of that Sub-Fund or the Net Asset Value of that Sub-Fund or the Issue Price or Redemption Price per Unit cannot in the opinion of the Manager after consultation with the Trustee reasonably or fairly be ascertained or cannot be ascertained in a prompt or accurate manner; or
- (f) when, in the opinion of the Manager after consultation with the Trustee, such suspension is required by law or applicable legal process; or
- (g) where that Sub-Fund is invested in one or more collective investment schemes and the redemption of interests in any relevant collective investment scheme(s) (representing a substantial portion of the assets of the Sub-Fund) is suspended or restricted; or
- (h) when the business operations of the Manager, the Trustee or any of their delegates in relation to the operations of that Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (i) when the Unitholders or the Manager have resolved or given notice to terminate that Sub-Fund.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund until the Manager shall declare the suspension at an end, except that the suspension shall terminate in any event

on the day following the first Business Day on which (i) the condition giving rise to the suspension shall have ceased to exist and (ii) no other condition under which suspension is authorised shall exist.

Whenever the Manager declares such a suspension it shall, immediately after any such declaration and at least once a month during the period of such suspension, publish a notice in the Standard and the Hong Kong Economic Times.

No Units in the relevant Sub-Fund may be issued, redeemed or switched during such a period of suspension. This applies to subscription, redemption and switching requests received both before and during the period of suspension so long as the Dealing Days to which such requests relate fall within the period of suspension.

### **LIQUIDITY RISK MANAGEMENT**

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

The Manager's liquidity policy takes into account the investment strategy; the dealing frequency; the underlying assets' liquidity; the ability to enforce redemption limitations; and fair valuation policies of the Sub-Funds. These measures seek to ensure fair treatment and transparency for all investors.

The following aspects of liquidity risk will be considered before investing in the underlying securities of the Sub-Funds:

- The volume and turnover in the security will be considered;
- (Where the price is determined by the market) the size of the issue and the portion of the issue that the Manager plans to invest in will be taken into account;
- The opportunity and timeframe to acquire or sell the securities will be evaluated;
- An independent analysis of historic bid and offer prices may indicate the relative liquidity and marketability of the instrument. In assessing the quality of secondary market activity analysis of the quality and number of intermediaries and market makers dealing in the transferable security concerned should be considered. If the security is assessed as insufficiently liquid to meet foreseeable redemption requests,

the security must only be acquired or held if there are other sufficiently liquid securities in the portfolio to meet expected redemption requests.

The liquidity management policy involves monitoring the profile of investments held by the relevant Sub-Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed “Redemption of Units”, and will facilitate compliance with each Sub-Fund’s obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of each Sub-Fund in times of exceptional market conditions.

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

- the Manager may with the approval of the Trustee limit the number of Units of any Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue (subject to the conditions under the heading entitled “Restrictions on redemption and switching” in the section “Switching between Classes”);
- the Manager may, in calculation of the Issue Price and the Redemption Price, impose surcharges or deduction that reflect expenses such as taxes, governmental charges, brokerages (normally known as fiscal charges), to protect the interest of remaining Unitholders.

In practice, the Manager will consult the Trustee before the use of any liquidity risk management tools. Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risk. The use of liquidity risk management tools may impact on the investors’ ability to redeem investments on a Dealing Day.

## **INVESTMENT AND BORROWING RESTRICTIONS**

The Trust Deed sets out restrictions and prohibitions on the acquisition of certain investments by the Manager and borrowing restrictions. Unless otherwise disclosed in the Appendix for each Sub-Fund and agreed by the SFC, each of the Sub-Fund(s) is subject to the principal investment restrictions and borrowing restrictions set out in Schedule 1 to this Explanatory Memorandum.

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

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

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

The securities financing transactions policy for a Sub-Fund is stated in the relevant Appendix. Please refer to the relevant Appendix for further details on these transactions for each Sub-Fund.

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

### **Cross-trades**

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

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

## RISK FACTORS

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

Each Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of any Sub-Fund and the income from them may go down as well as up. There is no assurance that the investment objective of the respective Sub-Fund will be achieved.

- (i) **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.
- (ii) **China market risk** - Investing in the China market is subject to the risks of investing in emerging markets generally and the risks specific to the China market.

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

The regulatory and legal framework for capital markets and joint stock companies in the PRC may not be as well developed as those of developed countries. Chinese accounting standards and practices may deviate significantly from international accounting standards. The settlement and clearing systems of the Chinese securities

markets may not be well tested and may be subject to increased risks of error or inefficiency.

Investments in equity interests of Chinese companies may be made through China A-Shares, B-Shares (i.e. shares issued by companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors) and H-Shares (i.e. shares issued by companies incorporated in the PRC and listed on the Stock Exchange of Hong Kong and traded in Hong Kong dollars). The PRC stock market has in the past experienced substantial price volatility, and there is no assurance that such volatility will not occur in the future.

Investment in RMB denominated bonds may be made in or outside the PRC. As the number of these securities and their combined total market value are relatively small compared to more developed markets, investments in these securities may be subject to increased price volatility and lower liquidity.

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 relevant Sub-Fund. Laws governing taxation will continue to change and may contain conflicts and ambiguities.

Political changes, social instability and adverse diplomatic developments in Mainland China could result in the imposition of additional government restrictions including expropriation of assets, confiscatory taxes or nationalisation of some or all of the property held by the underlying issuers of the securities in a Sub-Fund's portfolio. There have been instances of drastic policy changes including regulatory actions against particular companies or sectors, resulting in disruption of prices of the relevant companies as well as the broader financial market. It is difficult to predict when similar actions may be taken, and investors in the Mainland Chinese market such as the Sub-Fund(s) may suffer significant financial losses as a result.

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Addendum

- (iii) **Foreign exchange control risk** - The Renminbi is not currently a freely convertible currency and is subject to exchange control imposed by the Chinese government. Such control of currency conversion and movements in the Renminbi exchange rates may adversely affect the operations and financial results of companies in the PRC. Insofar as a Sub-Fund's assets are invested in the PRC, it will be subject to the risk of the PRC government's imposition of restrictions on the repatriation of funds or other assets out

of the country, limiting the ability of the relevant Sub-Fund to satisfy payments to investors.

- (iv) ***Renminbi exchange risk*** - Starting from 2005, the exchange rate of the Renminbi is no longer pegged to the US dollar. The Renminbi has now moved to a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. The daily trading price of the Renminbi against other major currencies in the inter-bank foreign exchange market would be allowed to float within a narrow band around the central parity published by the People's Bank of China. As the exchange rates are based primarily on market forces, the exchange rates for Renminbi against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. It should be noted that the Renminbi is currently not a freely convertible currency as it is subject to foreign exchange control policies of the Chinese government. The possibility that the appreciation of Renminbi will be accelerated cannot be excluded. On the other hand, there can be no assurance that the Renminbi will not be subject to devaluation. Any devaluation of the Renminbi could adversely affect the value of investors' investments in the relevant Sub-Fund. Investors whose base currency is not the Renminbi may be adversely affected by changes in the exchange rates of the Renminbi. Further, the PRC government's imposition of restrictions on the repatriation of Renminbi out of China may limit the depth of the Renminbi market in Hong Kong and reduce the liquidity of the relevant Sub-Fund. The Chinese government's policies on exchange control and repatriation restrictions are subject to change, and the Sub-Fund's or the investors' position may be adversely affected.
- (v) ***Emerging markets risk*** - Various countries in which a Sub-Fund may invest are considered as 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 securities in emerging markets to a significant extent. As emerging markets tend to be more volatile than developed markets, any holdings in emerging markets are exposed to higher levels of market risk. The securities markets of some of the emerging countries in which a Sub-Fund's assets may be invested are not yet fully developed which may, in some circumstances, lead to a potential lack of liquidity. The securities markets of developing countries are not as large as the more established securities markets and have a substantially lower trading volume. Investment in such markets will be subject to risks such as market suspension, restrictions on foreign investment and control on repatriation of capital. There are also possibilities of

nationalisation, expropriation or confiscatory taxation, foreign exchange control, political changes, government regulation, social instability or diplomatic developments which could affect adversely the economies of emerging markets or the value of the Sub-Fund's investments.

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

- (vi) ***Risk relating to small- and mid-capped companies*** - Certain Sub-Funds may invest in the securities of small- and/or mid-capped companies. Investing in these securities may expose the Sub-Fund to risks such as greater market price volatility, less publicly available information, and greater vulnerability to fluctuations in the economic cycle.
- (vii) ***Settlement risk*** – Settlement procedures in emerging countries are frequently less developed and less reliable and may involve the Fund's delivery of securities, or transfer of title to securities, before receipt of payment for their sale. A Sub-Fund may be subject to a risk of substantial loss if a securities firm defaults in the performance of its responsibilities. The Sub-Fund may incur substantial losses if its counterparty fails to pay for securities the Sub-Fund has delivered, or for any reason fails to complete its contractual obligations owed to the Sub-Fund. On the other hand, significant delays in settlement may occur in certain markets in registering the transfer of securities. Such delays could result in substantial losses for a Sub-Fund if investment opportunities are missed or if a Sub-Fund is unable to acquire or dispose of a security as a result.
- (viii) ***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 therefore 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 terms of their base currency, investors in these Sub-Funds may be exposed to additional currency risk.
- (ix) ***Interest rates risk*** – Investment in a Sub-Fund may be subject to interest rate risk. Changes in interest rates may affect the value of a security as well as the financial markets in general. Debt securities (such as bonds) are more susceptible to fluctuation

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

- (x) ***Credit rating downgrading risk*** - The credit ratings of fixed-income securities by credit rating agencies are a generally accepted barometer of credit risk. They are, however, subject to certain limitations. For example, the rating of an issuer is heavily weighted by past developments and does not necessarily reflect probable future conditions. There is often a time lag in updating the credit ratings in response to recent credit events. The credit rating of a debt security or its issuer may subsequently be downgraded. In the event of such downgrading, a Sub-Fund's investment value in such security may be adversely affected. The Manager may or may not dispose of the securities, subject to the investment objectives of the relevant Sub-Fund. In the event of securities rated BBB- or above being downgraded to BB+ or below as rated by one of the credit rating agencies in China or an international credit rating agency, the Sub-Fund will also be subject to the lower rated risk outlined in the following paragraph.
- (xi) ***Lower rated and unrated securities risk*** – Subject to the relevant disclosure in the Appendix, a Sub-Fund may invest in securities which are BB+ or below as rated by one of the credit rating agencies in China or an international credit rating agency or which are unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated lower yielding securities. The ability of the issuer to make timely interest and principal payments will be especially susceptible to uncertainties and adverse changes in its financial conditions. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. Further, the market for these securities may be less active, making it more difficult to sell the securities at a price or time that the Sub-Fund wishes to do so. Valuation of these securities is more difficult. The values of these securities tend to be more volatile and sensitive to individual issuer developments and general economic conditions than the values of higher rated securities. As a result, the relevant Sub-Fund's prices may be more volatile.
- (xii) ***Credit risk*** - An issuer suffering an adverse change in its financial condition could lower the credit quality of a security, leading to greater price volatility of the security. A lowering of the credit rating of a security or its issuer may also affect the security's

liquidity, making it more difficult to sell. A Sub-Fund's investment is also subject to the risk that issuers may not make payments on the securities they issue. If the issuers of any of the securities in which the Sub-Fund's assets are invested default, the performance of the Sub-Fund will be adversely affected.

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

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

- (xiv) ***Concentration risk*** - Certain Sub-Funds may invest only in a specific country/region/sector. Each Sub-Fund's portfolio may not be well diversified in terms of the number of holdings and the number of issuers of securities that the Sub-Fund may invest in. Investors should also be aware that such Sub-Funds are 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 limited number of holdings or from adverse conditions in their respective countries.
- (xv) ***Hedging risk*** - The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market and currency risks. There is no guarantee that hedging techniques will achieve their desired result.
- (xvi) ***Liquidity risk*** - Some of the markets in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect the Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value.

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

- (xvii) **Volatility risk** – Prices of securities may be volatile. Price movements of securities are difficult to predict and are influenced by, among other things, changing supply and demand relationships, governmental trade, fiscal, monetary and exchange control policies, national and international political and economic events, and the inherent volatility of the market place. A Sub-Fund's value will be affected by such price movements and could be volatile, especially in the short-term.
- (xviii) **Difficulties in valuation of instruments** – Securities acquired on behalf of the Fund may subsequently become illiquid due to events relating to the issuer of the securities, market and economic conditions and regulatory sanctions. In cases where no clear indication of the value of a Fund's portfolio securities is available (for example, when the secondary markets on which a security is traded has become illiquid) the Manager may apply valuation methods to ascertain the fair value of such securities, pursuant to the Trust Deed.

In addition, market volatility may result in a discrepancy between the latest available issue and redemption prices for the Fund and the fair value of the Fund's assets. To protect the interest of investors, the Manager may, with the consent of the Trustee, adjust the Net Asset Value of the Fund or the Units, if in the circumstances it considers that such adjustment is required to reflect more accurately the fair value of the Fund's assets, pursuant to the Trust Deed. The valuation of a Sub-Fund under the circumstances mentioned above may involve uncertainties and judgmental determinations and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

- (xix) **Derivative and structured product risk** - The Sub-Funds may invest in derivatives such as options, futures and convertible securities, and in depositary receipts, participation rights and potentially through other instruments which are linked to the performance of securities or indices such as participation notes, equity swaps and equity linked notes, which are sometimes referred to as "structured products". Investment in these instruments can be illiquid, if there is no active market in these

instruments. Such instruments are complex in nature. Therefore there are risks of mispricing or improper valuation and possibilities that these instruments do not always perfectly track the value of the securities, rates or indices they are designed to track. Improper valuations can result in increased payments to counterparties or a loss in the value of the relevant Sub-Funds. The instruments will also be subject to insolvency or default risk of the issuers or counterparties. In addition, investment through structured products may lead to a dilution of performance of such Sub-Funds when compared to a fund investing directly in similar assets. Besides, many derivative and structured products involve an embedded leverage. This is because such instruments provide significantly larger market exposure than the money paid or deposited when the transaction is entered into, so a relatively small adverse market movement could expose the relevant Sub-Funds to the possibility of a loss exceeding the original amount invested.

- (xx) ***Restricted markets risk*** - The Sub-Funds may invest in securities in jurisdictions (including China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.
- (xxi) ***PRC tax considerations*** –By investing in PRC Securities, a Sub-Fund may be subject to taxes imposed by the PRC.

Corporate Income Tax:

If the Fund or Sub-Fund is considered as a PRC tax resident enterprise, it will be subject to PRC Corporate Income Tax (“**CIT**”) at 25% on its worldwide taxable income; if the Fund or Sub-Fund is considered as a non-PRC tax resident enterprise but has a permanent establishment (“**PE**”) in the PRC, the profits and gains attributable to that PE would be subject to PRC CIT at 25%.

It is the intention of the Manager to operate the affairs of the RQFII and the relevant Sub-Fund such that they 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 PRC CIT purposes, although this cannot be guaranteed. If the Fund or Sub-Fund is a non-PRC tax resident enterprise without PE in the PRC, the PRC sourced income derived by it from the investment in PRC Securities would be subject to 10% PRC withholding income tax (“**WIT**”) in the PRC, unless exempt or reduced under the laws and regulations or relevant tax treaty.

### *Dividend and Interest*

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

Under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" (“**China-HK Arrangement**”), the WIT charged on interests received by non-resident enterprise holders of debt instruments will be reduced to 7% of the gross amount of the interests, if the holders are Hong Kong residents and are the beneficial owners of the interests under the China-HK Arrangement and other relevant conditions are satisfied. In practice, due to the practical difficulties in demonstrating the Sub-Fund is the beneficial owner of the interests received, the Sub-Fund is generally not eligible for the reduced WIT rate of 7%. In general, the prevailing 10% will be applicable to the Sub-Fund.

Under the PRC CIT Law, interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempt from PRC income tax under CIT law.

### *Capital Gain*

#### *Trading of PRC debt securities*

On 7 November 2018, the MOF and the SAT issued Caishui [2018] No. 108 (“**Circular 108**”), which stipulated that foreign institutional investors are exempt

from PRC WIT and Value Added Tax (“VAT”) in respect of bond interests received from 7 November 2018 to 6 November 2021 from investments in the China bond market. As this exemption granted under Circular 108 is temporary, it is uncertain whether such exemption policy would be extended after 6 November 2021.

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of debt securities issued by PRC tax resident enterprises. The tax treatment for investment in debt securities issued by PRC tax residents is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Sub-Fund would be potentially subject to 10% PRC WIT on the PRC-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Pursuant to Article 7 of the Detailed Implementation Regulations of the PRC CIT Law, where the property concerned is a movable property, the source of capital gain shall be determined according to the location of the enterprise, establishment or place which transfers the property. The PRC tax authorities have verbally indicated that debt instruments issued by PRC tax resident enterprises are movable property. In this case, the source shall be determined based on the location of the transferor. As the Sub-Fund is located outside the PRC, gains derived by the Sub-Fund from debt instruments issued by PRC tax resident enterprises could be argued as offshore sourced and thus not subject to PRC WIT. However, there is no written confirmation issued by the PRC tax authorities that debt instruments issued by PRC tax resident enterprises are movable property.

In addition to the verbal comments, Article 13.6 of the China-HK Arrangement provides that any gains derived by a Hong Kong tax resident from the disposal of PRC properties that are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement shall be taxable only in Hong Kong. As the debt instruments issued by the PRC tax resident enterprises are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement, capital gains derived by the Hong Kong tax resident from the disposal of debt instruments issued by the PRC tax resident enterprises should technically be exempt from PRC WIT provided all the other relevant treaty conditions are satisfied, subject to agreement by the PRC tax authorities. In order to qualify for this preferential treatment, the Manager will further assess and seek agreement from the PRC tax authorities in relation to the relevant Sub-Fund, although this cannot be guaranteed.

Furthermore, in practice, the PRC tax authorities have not actively enforced the collection of PRC WIT in respect of gains derived by non-PRC tax resident enterprises from the trading of debt securities.

The Manager's current policy on tax provisions is set out in the Appendix for the relevant Sub-Fund.

#### Value Added Tax and other surtaxes

On 23 March 2016, the MOF and the SAT jointly issued the "Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program (the **"B2V Pilot Program"**) Caishui [2016] No.36 (**"Notice No. 36"**) announcing that the B2V Pilot Program will be rolled out to cover all remaining industries, including financial services. Notice 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

Pursuant to Notice 36, interests derived from bonds issued by PRC tax resident enterprises should be subject to VAT at 6% plus local surtaxes, unless specifically exempted. Interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempted from VAT. On 7 November 2018, the MOF and the SAT issued Circular 108 which stipulated that foreign institutional investors are exempted from China WIT and VAT in respect of bond interests received from 7 November 2018 to 6 November 2021 from investments in the China bond market.

Under Notice No. 36 and Caishui [2016] No.70, gains realised by QFIIs and RQFIIs from trading of PRC securities are exempted from VAT. Gains realized by approved foreign investors from trading of RMB denominated debt securities in the China Interbank Bond Market are also exempt from VAT.

Dividend income or profit distributions on equity investment derived from the PRC are not subject to VAT.

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

The Manager's current policy on tax provisions is set out in the Appendix for the relevant Sub-Fund.

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 contracts for the sale of China A-Shares and China B-Shares traded on the PRC stock exchanges, at the rate of 0.1%. In the case of contracts for sale of China A-Shares and China B-Shares, such stamp duty is currently imposed on the seller but not on the purchaser.

General

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated. Any tax provision made by the Manager in respect of the Sub-Fund may be more than or less than the Sub-Fund's respective actual tax liabilities, which may potentially cause substantial loss to the Sub-Fund. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly.

If it is subsequently determined that PRC tax is payable and that no PRC tax has been provisioned for, investors should note that the Net Asset Value of a Sub-Fund may fall significantly as the relevant Sub-Fund will have to bear the tax liabilities. If a Sub-Fund had made a PRC tax provision, upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, any sums withheld in excess of the tax liability incurred or is expected to be incurred by a Sub-Fund shall be released and transferred to the Sub-Fund's accounts forming part of the Sub-Fund's assets. It should also be noted that the actual applicable tax amount imposed on the income and/or gains derived from investment held by a Sub-Fund may be different and may change from time to time due to the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively. As such, the amount of such provisions (if any) may not be sufficient to meet the actual tax liabilities.

With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on income and/or gains derived from investments held by a Sub-Fund. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such income and/or gains will be taxed, the level of provision and when they subscribed and/or realized their Units in/from a Sub-Fund. If the actual applicable tax amount levied by the 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 a 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 amount 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 Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in a Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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 relevant 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 a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

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

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

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

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

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

Debt securities: There is no assurance that losses will not occur with respect to investment in debt securities. A default on interest or principal by the counterparty may adversely affect the performance of the relevant Sub-Fund.

(xxv) **Risk of termination** - a Sub-Fund may be terminated in certain circumstances which are summarised under the section “Termination of the Fund or any Sub-Fund”. In the event of the termination of a Sub-Fund, such Sub-Fund would have to

distribute to the Unitholders their pro rata interest in the assets of the Sub-Fund. It is possible that at the time of such sale or distribution, certain investments held by the relevant Sub-Fund will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any organisational expenses (such as establishment costs) with regard to the relevant Sub-Fund that had not yet been fully amortised would be debited against the Sub-Fund's assets at that time.

(xxvi) ***Securities lending risk*** - The Manager may enter into securities lending transactions for the account of a Sub-Fund. Investors must note that if the borrower of securities lent by a Sub-Fund becomes insolvent or refuses to honour its obligations to return the relevant securities, the Sub-Fund would experience delays in recovering its securities and may possibly incur a capital loss. The collateral received may be realised at a value less than the value of the securities lent out, whether due to inaccurate pricing, adverse market movements, a deterioration in the credit rating of the issuers of the collateral, or the illiquidity of the market in which the collateral is traded. In case of reinvestment of cash collateral such reinvestment may yield a sum less than the amount of collateral to be returned by the Sub-Fund to the securities lending counterparty, thereby resulting in a loss to the Sub-Fund. Further, delays in the return of securities on loan may restrict the ability of a Sub-Fund to meet delivery obligations under security sales or payment obligations arising from redemption requests.

(xxvii) ***Performance Fee Risk*** - In addition to receiving a management fee, the Manager may also receive a performance fee based on the appreciation in the Net Asset Value per Unit. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised. In addition, the payment of performance fee may create an incentive for the Manager to make investments for the relevant Sub-Funds which are riskier than would be the case in the absence of a fee based on the performance of the Sub-Funds.

(xxviii) ***Distribution out of capital*** - Subject to the disclosure in the relevant Appendix, dividends/distributions may be paid out of capital of a Sub-Fund. The Manager may distribute out of the capital of a Sub-Fund if the income generated from the relevant Sub-Fund's investments attributable to the relevant class of Units during the relevant period is insufficient to pay distributions as declared. Investors should

note that the payment of distributions out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of a Sub-Fund's capital may result in an immediate reduction of the Net Asset Value of the relevant Units.

(xxix) **Foreign Account Tax Compliance** – Sections 1471 – 1474 of the US Internal Revenue Code of 1986, as amended (“**US Code**”) (commonly known as the Foreign Account Tax Compliance Act or “**FATCA**”) will impose new rules with respect to certain payments to non-United States persons, such as the Sub-Funds, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (“**US IRS**”) to identify certain United States persons (within the meaning of the US Code) that own, directly or indirectly, Units in the Sub-Funds. To avoid such withholding on payments made to it, a foreign financial institution (an “**FFI**”), such as the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an “**FFI Agreement**”) with the US IRS under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement and is not otherwise exempt will face a 30% withholding tax on “withholdable payments”, including dividends, interest and certain derivative payments derived from US sources made on or after 1 July 2014. In addition, starting from 1 January 2019, gross proceeds such as sales proceeds and return of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as “withholdable payments.” It is expected that certain non-U.S. source payments attributable to amounts that would be subject to FATCA withholding (referred to as “foreign passthru payments”) may also be subject to FATCA withholding starting the later of 31 December 2018 or the date of when foreign passthru payments is defined by the US IRS.

The Hong Kong government has entered into an intergovernmental agreement with the US (“**IGA**”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under these “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Sub-Funds) would be subject to the terms of an FFI Agreement with the US IRS, register with the US IRS and comply with the terms of an FFI Agreement.

Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments and other “withholdable payments” paid to them.

It is expected that FFIs in Hong Kong (such as the Sub-Funds) complying with the terms of an FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to “non-consenting US accounts” (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS), but may be required to withhold tax on withholdable payments made to non-compliant FFIs.

The Sub-Funds will endeavour to satisfy the requirements imposed under FATCA and the terms of the FFI Agreement to avoid any withholding tax. The Sub-Funds have agreed to be subject to the terms of an FFI Agreement and have registered with the US IRS to be treated as “reporting financial institutions under a Model 2 IGA”.

In the event that a Sub-Fund is not able to comply with the requirements imposed by FATCA or the terms of an FFI Agreement and such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of such Sub-Fund may be adversely affected and the Fund and such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation related to FATCA, whether or not that actually leads to FATCA compliance failures by the relevant Sub-Fund, or a risk of the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Fund and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS (subject to applicable laws and regulations in Hong Kong); (ii) withholding or deducting any reasonable amount from such Unitholder’s redemption proceeds or other distribution proceeds to the extent permitted by applicable laws and regulations; (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund; and/or (iv) bringing legal action against such Unitholder for losses suffered by the Fund or the relevant Sub-Fund as a result of such withholding tax. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds and in accordance with all applicable laws and regulations.

In cases where Unitholders invest in the Sub-Fund through an intermediary, Unitholders are reminded to check whether such intermediary, if an FFI, is FATCA compliant and in accordance with all applicable laws and regulations. Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation and in respect of its investment in the Sub-Funds, as well as the potential impact of FATCA on the Sub-Funds.

(xxx) ***Automatic Exchange of Financial Account Information*** - The Inland Revenue (Amendment) (No.3) Ordinance (the “**Ordinance**”) was gazetted on 30 June 2016 and the Hong Kong Inland Revenue Department (“**IRD**”) published guidance on 9 September 2016 for financial institutions (“**FIs**”) to assist them in complying with the Common Reporting Standard obligations. This is the legislative framework for the implementation of the Standard for Automatic Exchange of Financial Account Information (“**AEOI**”) in Hong Kong. The AEOI requires FIs in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with FIs, and file such information with the IRD who in turn may exchange such information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority Agreement (“**CAA**”); however, the Fund, the Sub-Funds, the Manager and the Trustee and/or its agents may further collect information relating to residents of other jurisdictions.

The AEOI rules as implemented in Hong Kong require the Fund and each Sub-Fund to, amongst other things: (i) register the Fund’s status as a “Reporting Financial Institution” with the IRD; (ii) conduct due diligence on its accounts (i.e. Unitholders) to identify whether any such accounts are considered “Reportable Accounts” for AEOI purposes; and (iii) report to the IRD information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the relevant jurisdictions with which Hong Kong has signed a CAA. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a jurisdiction with which Hong Kong has signed a CAA; and (ii) individuals who are tax resident in such other jurisdiction that are controlling certain entities. Under the Ordinance, details of Unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

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

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

In view of the above, investment in any Sub-Fund should be regarded as long term in nature. The Sub-Funds are, therefore, only suitable for investors who can afford the risks involved.

Investors should refer to the relevant Appendix for details of any additional risks specific to a Sub-Fund.

## **EXPENSES AND CHARGES**

### **Charges Payable by Investors**

Preliminary Charge, Redemption Charge and Switching Charge may be charged to an investor in his/her purchase, redemption and switching of Units pursuant to the sections headed “Purchase of Units”, “Redemption of Units” and “Switching between Classes” above. The applicable rates of such charges in respect of a Sub-Fund are set out in the Appendix for the relevant Sub-Fund.

### **Expenses and Charges Payable by the Sub-Fund(s)**

The following expenses, charges and fees are payable by the Sub-Fund(s).

#### **Management Fee**

The Manager is entitled to receive a management fee accrued on and calculated as at each Valuation Day and payable monthly in arrears out of each Sub-Fund as a percentage of the Net Asset Value of each class of Unit in a Sub-Fund as at each Valuation Day at the rates set out in the Appendix for the relevant Sub-Fund subject to a maximum fee of 3% per annum.

The Manager shall pay the fees of any sub-investment manager and investment adviser to which it has appointed. Any such sub-investment managers and investment adviser will not receive any remuneration directly from any Sub-Fund.

Unitholders shall be given not less than one month’s prior notice should there be any increase of the management fee from the current level to the maximum level.

#### **Performance Fee**

Unless otherwise described in the relevant Appendix, the Manager does not intend to charge any performance fee. However, the Manager may in future elect to levy a performance fee for a particular Sub-Fund(s) calculated with reference to the below. The Manager will give not less than 3 months’ notice of such election to relevant Unitholders. Any performance fee will only be payable in relation to the financial years of the relevant Sub-Fund(s) falling after the expiry of such notice.

The Manager may from time to time determine the relevant percentage as described in the Appendix for the relevant Sub-Fund(s).

The Manager is entitled to receive an annual performance fee, calculated on (1) a high-on-high basis if the Net Asset Value per Unit as at the last Valuation Day of each financial year (prior to the deduction of any provision for any performance fee and any distribution declared or paid in respect of that performance period) (“Performance Fee Valuation Day”) exceeds the higher of (a) the initial offer price; and (b) the Net Asset Value per Unit as the Performance Fee Valuation Day of the preceding performance period in respect of which a performance fee was last paid to the Manager (after deduction of all fees including any performance fee and taking into account the application and redemption instructions received in respect of the Sub-Fund as of the Performance Fee Valuation Day and any distribution declared or paid in respect of that preceding performance period); or (2) reference to the performance of a benchmark or an asset class and the performance fee will be payable upon outperformance of the Net Asset Value per Unit vis-à-vis that of the benchmark or asset class .

The rate of performance fee payable will be determined by the Manager from time to time and described in the Appendix for the relevant Sub-Fund and is calculated by multiplying this fee rate by the product of such excess of the Net Asset Value per Unit and the average of the number of Units of the relevant Sub-Fund in issue on each Valuation Day in the relevant performance period.

If any Units are redeemed or switched (if any) into the Units of other Sub-Fund(s), managed by the Manager on a Dealing Day, during the relevant performance period, the cumulative performance fee accrued during the relevant performance period in respect of those Units shall be set aside and become payable to the Manager.

Please note that in relation to the charging of a performance fee, there will be no equalisation payment or series shares for the purposes of determining the performance fee payable to the Manager. The use of equalisation payment or issue of series shares seeks to ensure that the performance fee payable by an investor is directly referable to the specific performance of such individual investor’s shareholding in the relevant class of Units. As the performance fee is accrued on a daily basis, the Net Asset Values for the relevant class of Units would have reflected an accrual for the performance fee upon the issue and redemption of the relevant Units during the fiscal year.

However, given the relevant share classes do not use equalisation payment or issue of series shares for the purpose of calculating the performance fee, investors may be advantaged or disadvantaged as a result of this method of calculation, depending upon the Net Asset Value

per Unit of the relevant class at the time an investor subscribes or redeems relative to the overall performance of that relevant class of Units during the relevant fiscal year and the timing of subscriptions and redemptions to the relevant class of Units during the course of such fiscal year.

For example, that an investor who subscribes to a Sub-Fund during the course of a particular performance period when the Net Asset Value per Unit is below the relevant high-water-mark, and who subsequently redeems prior to the end of such performance period when the Net Asset Value per Unit has increased up to (but does not exceed) the relevant high-water-mark as at the time of his redemption will be advantaged as no performance fee will be chargeable in such circumstances. Conversely, an investor who subscribes to a Sub-Fund during the course of a particular performance period when the Net Asset Value per Unit is above the relevant high-water-mark may be disadvantaged as the Issue Price would have reflected an accrual of the performance fee. As a result, there is a risk that an investor may need to pay a performance fee which is disproportional to the actual rise in value of the Units he holds, and he may incur performance fee even though there is a decrease in value of the Units from the Issue Price at which he subscribed.

As the calculation of the Net Asset Value will take into account any unredeemed appreciation as well as redeemed gains, a performance fee may be paid on unredeemed gains which may never be redeemed. In addition, the payment of performance fee may create an incentive for the Manager to make investments for the relevant Sub-Funds which are riskier than would be the case in the absence of a fee based on the performance of the Sub-Funds.

#### Trustee Fee

The Trustee is entitled to a Trustee Fee, payable out of the assets of each Sub-Fund which is based on the Net Asset Value of the relevant Sub-Fund at the rate set out in relevant Appendix for the Sub-Fund subject to a maximum rate of 1.0% of the Net Asset Value of the relevant Sub-Fund, and subject to a minimum monthly fee at the rate set out in relevant Appendix for the Sub-Fund. The Trustee Fee is accrued daily and is payable monthly in arrears. Investors should refer to the Appendix relating to the relevant Sub-Fund for details.

Unitholders shall be given not less than one month's prior notice should there be any increase of the Trustee Fee from the current level up to the maximum level.

#### Custodian Fee

The RQFII Custodian is entitled to (among others) transaction charges at customary market rates and a Custodian Fee at the rate set out in the Appendix for the relevant Sub-Fund. Such fees will be calculated monthly and will be paid monthly in arrears, out of the assets of each Sub-Fund. The RQFII Custodian will be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties.

The maximum Custodian Fee (excluding the transaction charges) is 0.5% of the Net Asset Value of the relevant Sub-Fund per annum. The RQFII Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties wholly and exclusively in respect of the Fund and/or the Sub-Fund(s). Any increase in this fee will only be implemented after giving one month's notice (or such longer period of notice as the SFC may require) to the affected Unitholders.

### Establishment Costs

The establishment costs of the Fund and the initial Sub-Fund (i.e. E Fund (HK) RMB Fixed Income Fund) have been fully amortised.

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

The establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be borne by the Sub-Fund to which such costs and payments relate and amortised over a period of five Accounting Periods (or such other period as determined by the Manager).

### General

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

Each Sub-Fund will bear the cost of (a) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, fees and transaction fees of the Trustee, custodian or sub-custodian and proxy fees and expenses, collection fees and expenses, insurance and security costs, and any other costs, charges or expenses payable in respect of the acquisition, holding and redemption of any investment or other property or any cash,

deposit or loan (including the claiming or collection of income or other rights in respect thereof and including any fees or expenses charged or incurred by the Trustee or the Manager or any connected person in the event of the Trustee or the Manager or such connected person rendering services or effecting transactions giving rise to such fees or expenses), (b) the fees and expenses of the Auditors and the registrar, (c) fees charged by the Trustee in connection with valuing the assets of the Sub-Fund or any part thereof, calculating the issue and redemption prices of Units of the Sub-Fund and preparing financial statements, (d) all legal charges incurred by the Manager or the Trustee in connection with the Fund or the relevant Sub-Fund, (e) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties, (f) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed, (g) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (h) the costs and expenses of obtaining and maintaining a listing for the Units of the Sub-Fund on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or in obtaining and maintaining any approval or authorisation of the Fund or any Sub-Fund or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, approval or authorisation, and (i) without prejudice to the generality of the foregoing, all costs incurred in publishing the issue and redemption prices of Units of the Sub-Fund, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees and Trustee's fee), the expenses of preparing and printing any explanatory memorandum, and any other expenses, deemed by the Manager, after consulting the Trustee, to have been incurred in compliance with or in connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts.

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

### **Cash Rebates and Soft Commissions**

Neither the Manager, the investment delegate (if any) nor any of their connected persons will retain cash or other rebates from brokers or dealers in consideration of directing transactions for a Sub-Fund to such brokers or dealers.

The Manager, the investment delegate (if any) and/or any of their connected persons reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the investment delegate (if any) and/or any of their connected persons has an arrangement under

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

## **TAXATION**

Each prospective Unitholder should consult their own professional advisors on the possible tax consequences applicable to the acquisition, holding and redemption of Units by him under the laws of the places of his citizenship, residence and domicile. Neither the Fund nor any of its respective affiliates accepts any responsibility for providing tax advice to any prospective Unitholder.

### **Hong Kong**

#### Taxation of the Fund

The Fund and the Sub-Funds will be exempted from Profits Tax, in respect of their authorised activities, in Hong Kong so long as they are authorised by the SFC as a collective investment scheme under section 104 of the SFO for offer to the retail public in Hong Kong.

### Taxation of Unitholders

Profits arising on the disposal / redemption of any Units will only be subject to Profits Tax for Unitholders who carry on a trade or business in Hong Kong where the profits, not being regarded as capital in nature, arise from such trade or business and are sourced in Hong Kong. Unitholders who do not carry on a trade or business in Hong Kong will not be liable to Profits Tax in respect of any gains from the disposal / redemption of such Units.

Distributions received by Unitholders from their investments in the Units would generally not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise).

### Stamp Duty

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

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

Other types of sales or purchases or transfers of the Units by the Unitholders will be liable to Hong Kong stamp duty of 0.26% (equally borne by the buyer and seller) of the higher of the consideration amount or market value.

### **China**

Investors should also refer to the “PRC tax considerations” under the section headed “Risk Factors” to inform themselves of possible tax consequences under PRC laws.

### **FATCA**

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

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund or the relevant Sub-Fund receives payments and/or (B) to satisfy

reporting or other obligations under the US IRS Code and the United States Treasury Regulations promulgated under the US IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the US, Hong Kong (including any law, rule and requirement relating to AEOI) or any other jurisdiction, including reporting obligations that may be imposed by future legislation.

#### Power to Disclose Information to Authorities

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

Investors should refer to “Foreign Account Tax Compliance” in the section headed “Risk Factors” for disclosures regarding compliance with the regulations under the United States Foreign Account Tax Compliance Act.

## **REPORTS AND ACCOUNTS**

The Fund's financial year end is on 31 December in each year. The Manager will notify Unitholders when the annual report and audited accounts (in English only) are published (in printed and electronic forms) within four months after the end of the financial year, and when the unaudited semi-annual reports (in English) are published (in printed and electronic forms) within two months after 30 June in each year. Printed copies of the annual and semi-annual reports will be available at the Manager's office upon request and electronic reports will be available at [www.efunds.com.hk](http://www.efunds.com.hk)<sup>2</sup>.

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<sup>2</sup> This website has not been reviewed by the SFC.

## **DISTRIBUTION OF INCOME**

Unless otherwise described in the relevant Appendix, the Manager does not intend to make any distribution of income.

Distributions (if any) declared in respect of an interim accounting period or an Accounting Period, as described in the relevant Appendix, 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 interim accounting period or Accounting Period, as the case may be. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding interim accounting period or Accounting Period, as the case maybe.

All distributions declared on the relevant Sub-Fund will be automatically reinvested unless otherwise stated in the Appendix of the relevant Sub-Fund and the Manager reserves the right not to reinvest the dividends for the Unitholders and the relevant proceeds will be paid to the Unitholders accordingly. In this case, any payment of distributions will be made in the base currency or class currency of the relevant classes (as determined by the Manager or the Trustee) by direct transfer, net of bank charges, into the appropriate bank account or by cheque at the risk of the Unitholders (or in such other manner as may be agreed with the Manager and the Trustee). Any distribution which is not claimed for six years will be forfeited and become part of the assets of the relevant Sub-Fund.

## **VOTING RIGHTS**

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

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution shall be Unitholders present in person or by proxy representing 25% or more of the Units in issue. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting should be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. On a show of hands, every individual Unitholder present in person or by

representative has one vote; on a poll every Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the Register of Unitholders. A poll may be demanded by the Chairman or one or more Unitholders present in person or by proxy.

### **PUBLICATION OF PRICES**

The Net Asset Value per Unit of each Sub-Fund will be published on each Dealing Day in Hong Kong in the Standard and in the Hong Kong Economic Times.

### **TRANSFER OF UNITS**

Subject as provided below, Units may be transferred by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee and duly stamped with adequate stamp duty. The duly stamped instrument of transfer, any necessary declarations, other documents that may be required by the Trustee or in consequence of any legislation (including any anti-money laundering legislation) shall be left with the Trustee for registration. The transferor will be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

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

### **COMPULSORY REDEMPTION OR TRANSFER OF UNITS**

The Manager or the Trustee may require a Unitholder to transfer the Unitholder's Units or may redeem such units in accordance with the Trust Deed if it shall come to the notice of the Manager or the Trustee that the Unitholder holds such Units (a) in breach of the law or requirements of any country, any governmental authority or any stock exchange on which such Units are listed or (b) in circumstances (whether directly or indirectly affecting such Unitholder and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager or the Trustee to be relevant) which, in the opinion of the Manager or the Trustee, might result in the Fund and/or any Sub-Fund in relation to such class of Units incurring any liability to taxation or suffering any other

pecuniary disadvantage which the Fund or the Sub-Fund might not otherwise have incurred or suffered.

## **TRUST DEED**

The Fund was established under the laws of Hong Kong by a Trust Deed dated 18 January 2012 made between E Fund Management (Hong Kong) Co., Limited as Manager and Bank of Communications Trustee Limited as Trustee.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances. However, the Trustee and the Manager shall not be exempted from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence nor may they be indemnified against such liability by Unitholders or at Unitholders' expense. Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

The Fund shall be subject to and governed by the laws of Hong Kong. The Trust Deed shall be construed according to the laws of Hong Kong and the parties to the Trust Deed (i.e. the Manager and the Trustee) have agreed to submit to the non-exclusive jurisdiction of the courts of Hong Kong.

Copies of the Trust Deed (together with any supplemental deeds) may be obtained from the Manager on payment of a reasonable fee and may be inspected during normal working hours at the offices of the Manager free of charge.

## **TERMINATION OF THE FUND OR ANY SUB-FUND**

The Fund 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 Fund may be terminated by the Trustee on notice in writing, provided that the Trustee shall certify that in its opinion the proposed termination is in the interest of Unitholders,

- (a) if the Manager goes into liquidation, becomes bankrupt or if a receiver is appointed over any of their assets and not discharged within 60 days; or

- (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 Fund into disrepute or to be harmful to the interests of the Unitholders; or
- (c) if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund; or
- (d) within 30 days of the Manager leaving office, no new manager is appointed; or
- (e) no new trustee is appointed within six months of the Trustee giving notice of its desire to retire.

The Fund and/or any of the Sub-Fund or the class of Units of a Sub-Fund may be terminated by the Manager on notice in writing if:

- (a) on any date, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding thereunder shall be less than RMB50 million or in relation to a Sub-Fund, the aggregate Net Asset Value of the Units of the relevant class outstanding thereunder shall be less than RMB30 million or such other amounts as disclosed in the relevant Appendix; or
- (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); or
- (c) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable in consultation with the relevant regulatory agencies (the SFC in Hong Kong) to continue the Fund or a Sub-Fund.

In cases of termination on notice, no less than one month's notice will be given to Unitholders.

Further, each of the Sub-Funds or a class or classes of the Sub-Fund may be terminated by an extraordinary resolution of the Unitholders of the Sub-Fund or the Unitholders of the relevant class or classes (as the case may be) on such date as the extraordinary resolution may provide.

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

### **ANTI-MONEY LAUNDERING REGULATIONS**

As part of the Manager's/Trustee's responsibility for the prevention of money laundering, the Manager/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 fund.

### **CONFLICTS OF INTEREST**

The Manager and the Trustee and their respective connected persons may from time to time act as trustee, administrator, transfer agent, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients including those which have similar investment objectives to those of any Sub-Fund or contract with or enter into financial, banking or other transaction with one another or with any investor of the Sub-

Funds, or with company or body any of whose shares or securities form part of any Sub-Fund or may be interested in any such contract or transaction. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund and the Sub-Funds. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Fund and the Sub-Funds on normal commercial terms. If such conflicts arise, each will, at all times, act in accordance with the terms of the Trust Deed and have regard in such event to its obligations to the Fund, the Sub-Funds and the Unitholders and will endeavour to ensure that such conflicts are managed and minimised so far as reasonably practicable and that measures are adopted that seek to ensure such conflicts are resolved fairly, taking into account the interests of Unitholders of the relevant Sub-Fund as a whole.

The Manager may also act as the investment manager of other funds whose investment objectives, investment approach and investment restrictions are similar to those of a Sub-Fund. The Manager or any of its connected persons may invest in, directly or indirectly, or manage or advise other investment funds or accounts which invest in assets which may also be purchased or sold by a Sub-Fund. Compliance procedures and measures such as segregation of duties and responsibilities together with different reporting lines and "Chinese walls" have been put in place by the Manager to minimise potential conflicts of interest. Neither the Manager nor its connected persons is under any obligation to offer investment opportunities of which any of them become aware to any Sub-Fund or to account to any Sub-Fund in respect of (or share with any Sub-Fund or to inform any Sub-Fund of) any such transactions or any benefit received by any of them from any such transaction, but will allocate such opportunities fairly between the relevant Sub-Fund and other clients. Where the Manager invests the assets of a Sub-Fund in shares or units of a collective investment scheme managed by the Manager or any of its connected persons, the manager of the scheme in which the investment is being made by such Sub-Fund must waive any preliminary or initial charge and redemption charge which it is entitled to charge for its own account in relation to such investment by the relevant Sub-Fund.

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

Subject to the restrictions and requirements applicable from time to time, the Manager, any investment delegates as may be appointed by the Manager or any of their respective connected

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

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the investment delegate of such Sub-Fund or their connected persons, the Manager shall ensure that it complies with the following requirements:

- (a) such transactions should be on arm's length terms;
- (b) the Manager 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 annual report of the relevant Sub-Fund.

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

Sub-Fund or any investor of the Fund or the Sub-Fund for any profit or benefit made or derived thereby or in connection therewith (including in situations set out above).

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

### **DOCUMENTS AVAILABLE FOR INSPECTION**

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

- (a) the Trust Deed, and any supplemental deeds;
- (b) all material contracts ((if any, as may be specified in the relevant Appendix); and
- (c) the latest financial reports of the Fund.

## SCHEDULE 1 - INVESTMENT AND BORROWING RESTRICTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

provided that:

- (A) no investment may be made in any underlying scheme the investment objective of which is to invest primarily in any investment prohibited by Chapter 7 of the Code;
- (B) where an underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation. For the avoidance of doubt, a Sub-Fund may invest in underlying scheme(s) authorized by the SFC under Chapter 8 of the Code (except for hedge funds under 8.7 of the Code), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and Qualified Exchange Traded Funds in compliance with sub-paragraphs 1(g)(i) and (ii) of this Schedule 1;
- (C) the underlying scheme's objective may not be to invest primarily in other collective investment scheme(s);
- (D) all initial charges and redemption charges on the underlying scheme(s) must be waived if the underlying scheme is managed by the Manager or its Connected Persons; and
- (E) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or its management company, or any quantifiable monetary benefits in connection with investments in any underlying scheme.

For the avoidance of doubt:

- (aa) unless otherwise provided under the Code, the spread requirements under sub-paragraphs 1(a), (b), (d) and (e) of this Schedule 1 do not apply to investments in other collective investment schemes by a Sub-Fund;
- (bb) unless otherwise disclosed in the Appendix of a Sub-Fund, the investment by a Sub-Fund in a Qualified Exchange Traded Fund will be considered and treated as listed securities for the purposes of and subject to the requirements in sub-paragraphs 1(a), (b) and (d) of this Schedule 1. Notwithstanding the aforesaid, the investments by a Sub-Fund in Qualified Exchange Traded Funds shall be subject to sub-paragraph 1(e) of this

Schedule 1 and the relevant investment limits in Qualified Exchange Traded Funds by a Sub-Fund shall be consistently applied;

- (cc) where investments are made in listed REITs, the requirements under sub-paragraphs 1(a), (b) and (d) of this Schedule 1 apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under sub-paragraphs 1(e) and (g)(i) of this Schedule 1 apply respectively; and
- (dd) where a Sub-Fund invests in index-based financial derivative instruments, the underlying assets of such financial derivative instruments are not required to be aggregated for the purposes of the investment restrictions or limitations set out in sub-paragraphs 1(a), (b), (c) and (f) of this Schedule 1 provided that the index is in compliance with the requirements under 8.6(e) of the Code.

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

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

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a Securities Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;

- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;
- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class, or collectively they own more than 5% of those securities; and
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash by the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1.

### 3. **Feeder Funds**

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

- (a) such underlying scheme ("**master fund**") must be authorised by the SFC;
- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager;

- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A), (B) and (C) to sub-paragraph 1(g) of this Schedule 1.

#### 4. Use of financial derivative instruments

4.1 A Sub-Fund may acquire financial derivative instruments for hedging purposes. For the purposes of this sub-paragraph 4.1, financial derivative instruments are generally considered as being acquired for hedging purposes if they meet all the following criteria:

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

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

4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% of its latest available Net Asset Value provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of

this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

4.3 Subject to sub-paragraphs 4.2 and 4.4 of this Schedule 1, a Sub-Fund may invest in financial derivative instruments provided that the exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in sub-paragraphs 1(a), (b), (c), (f), (g)(i) and (ii), provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1.

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

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other public securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies, or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies;
- (b) the counterparties to transactions of over-the-counter financial derivative instruments or their guarantors are substantial financial institutions or such other entity acceptable to the SFC;
- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to

market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and

- (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party service. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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

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

- (a) in the case of financial derivative instruments transactions which will, or may at the Sub-Fund's discretion, be cash settled, the Sub-Fund shall at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- (b) in the case of financial derivative instruments transactions which will, or may at the counterparty's discretion, require physical delivery of the

underlying assets, the Sub-Fund shall hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Sub-Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation provided further that the Sub-Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

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

5. **Securities financing transactions**

- 5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.
- 5.2 A Sub-Fund shall have at least 100% collateralization in respect of the securities financing transaction(s) into which it enters to ensure there is no uncollateralized counterparty risk exposure arising from these transactions.
- 5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Sub-Fund.
- 5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## 6. **Collateral**

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

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;
- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund's exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers' acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;
  - (ii) non-cash collateral received may not be sold, re-invested or pledged;
  - (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in 8.2(f) and 8.2(n) of the Code;
  - (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;

- (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

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

## **7. Borrowing and Leverage**

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

### Cash borrowing

- 7.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 7.1.

### Leverage from the use of financial derivative instruments

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

- 7.3 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 7.4 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

**8. Name of Sub-Fund**

- 8.1 If the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

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

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

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

### ***Sale and Repurchase Transactions***

Where a Sub-Fund enters into sale and repurchase transactions it sells securities such as bonds for cash and simultaneously agrees to repurchase the securities from the counterparty at a pre-determined future date for a predetermined price. A sale and repurchase transaction is economically similar to secured borrowing, with the counterparty of the relevant Sub-Fund receiving securities as collateral for the cash that it lends to the relevant Sub-Fund.

Where a Sub-Fund enters into reverse repurchase transactions it acquires securities such as bonds by cash and simultaneously agrees to sell the securities to the counterparty at a pre-determined future date for a predetermined price. A reverse repurchase transaction is economically similar to secured lending with the relevant Sub-Fund receiving securities as collateral for the cash it lends to the counterparty.

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

### ***Revenues and Expenses***

Any incremental income generated from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions, will be credited to the account of the relevant Sub-Fund. Such direct and indirect expenses shall include fees charged by parties such as custodian bank, international clearing organisations or agents operating or administering such transactions from time to time. Such fees and expenses will be at normal commercial rates

and will be borne by the relevant Sub-Fund in respect of which the relevant party has been engaged.

Details (such as information on income, direct and indirect costs, fees, entities to which such costs and fees are paid and the relationship of the entities with the Manager, the Trustee or the relevant Sub-Fund) of the sale and repurchase transactions and/or reverse repurchase transactions will be disclosed in the Fund's annual reports and semi-annual reports.

### ***Eligible Counterparties***

Please refer to Schedule 3 for further details.

### ***Collateral***

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

Please refer to Schedule 3 for further details.

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

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

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

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

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

The Manager currently does not intend to carry out any sale and repurchase and reverse repurchase transactions in respect of the Sub-Fund with or through a connected person of the Manager or the Trustee.

### ***Safekeeping arrangement***

#### *Assets received*

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

#### *Assets provided*

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

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

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

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

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

In general, the Manager approves collateral based on various criteria: the liquidity of the collateral, market risk associated with the collateral (e.g. based on the price volatility of the collateral), issuer risk, time to maturity of the collateral, etc. A Sub-Fund may receive both cash and non-cash collateral from a counterparty. Cash collateral acceptable to the Manager includes (but does not limit to) cash, cash equivalent (e.g. certificate of deposits, commercial papers, etc.) and other money market instruments. Non-cash collateral may comprise of various long/short term government bonds and corporate bonds rated BBB- or above by an internationally recognized credit rating agency or unrated bonds which are approved by the Manager, equity securities traded on a stock exchange, etc. The Manager will seek to achieve diversification of the portfolio of collateral to avoid concentrated exposure and correlation between the counterparty and the issuer of the collateral.

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

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

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

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

The Manager has established control measures to manage the credit and settlement risks pertaining to the counterparties during the relevant transaction period through regular assessments on the counterparties and control on credit limits and transaction amounts. The Manager will seek to appoint independent counterparties with credit rating of BBB- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognized credit rating agencies). The Manager will also monitor and conduct periodic review on the counterparties' ability and strength in the specific market (e.g. by reference to the counterparties' share capital).

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

The Manager has put in place a collateral valuation system to monitor the change in value of the security collaterals provided to the counterparty which will be marked-to-market on a daily basis using independent pricing sources and where either of the parties disagrees with the value of the security collateral determined, the security collateral will be valued by a pre-appointed third party, such as the custodian.

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

Collateral (subject to any net-off or set-off, if applicable) is capable of being fully enforced by the Manager / Sub-Fund at any time without further recourse to the counterparty.

### ***Haircut policy***

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

types, issuer creditworthiness, residual maturity, price sensitivity, optionality, expected liquidity in stressed period, impact from foreign exchange, and correlation between securities accepted as collateral and the securities involved in the transactions.

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

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

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

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

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

A Sub-Fund shall not sell, pledge or re-invest any non-cash collateral received by it. For the securities acquired through a reverse repurchase transaction or by cash obtained from a sale and repurchase transaction, a Sub-Fund will not use them as collateral of another sale and repurchase transaction.

Cash obtained in sale and repurchase transactions will be closely monitored by the Manager and will be used for liquidity management, re-investment and hedging purposes. Where cash received by a Sub-Fund is used for re-investment, such cash may only be re-invested subject to applicable investment restrictions in securities within the ambit of the investment objective and policies of the Sub-Fund.

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

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

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

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

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

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

## APPENDIX I - E Fund (HK) RMB Fixed Income Fund<sup>3</sup>

### Definitions

For this Sub-Fund, “**HK & PRC Business Day**” shall mean a day (other than a Saturday) on which banks and stock exchanges in Hong Kong and PRC are open for normal business or such other day or days as the Manager and the Trustee may agree from time to time.

### Application Moneys / Redemption Proceeds

Applicants for Units should note that application moneys for this Sub-Fund must be paid in the currency of the relevant Class. Where Unitholders redeem their Units, redemption proceeds will be paid to the relevant Unitholders in the currency of the relevant Class.

### Base Currency

The base currency of the Sub-Fund is RMB.

### Investment Objective and Policy

E Fund (HK) RMB Fixed Income Fund seeks to achieve long term capital growth in RMB terms through investment in a portfolio consisting primarily of RMB denominated and settled fixed income debt instruments which aim to generate a steady flow of income in addition to capital appreciation for the Sub-Fund.

The Sub-Fund will invest at least 70% of its Net Asset Value in:

- (i) RMB denominated and settled debt instruments issued or distributed within China that are traded on the interbank bond market and the listed bond market;
- (ii) fixed income funds which are authorised by the China Securities Regulatory Commission (“**CSRC**”) for offer to the retail public in China; and
- (iii) debt instruments issued outside of China and denominated in RMB.

The Sub-Fund may invest in urban investment bonds (城投債) (i.e. debt instruments issued by local government financing vehicles (“**LGFVs**”) and traded in the PRC exchange-traded bond markets and inter-bank bond market). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for local development, public

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<sup>3</sup> This Sub-Fund is currently in the process of termination, pending PRC tax settlement and clearance, and will no longer accept subscriptions.

welfare investment and infrastructure projects. The exposure to urban investment bonds (城投債) may be up to 100% of the Sub-Fund's Net Asset Value.

The Sub-Fund may invest less than 30% of its Net Asset Value in debt instruments issued or traded outside China, which may be denominated in USD.

The debt instruments in which the Sub-Fund may invest are issued by governments, quasi-government organisations, multinational organisations, financial institutions and other corporations, and include fixed rate or floating rate debt securities, convertible bonds (issued and/or guaranteed by issuers such as corporations, financial institutions and banks), commercial papers, short term bills and notes. The Sub-Fund will not invest in contingent convertible bonds.

The Sub-Fund may also invest in fixed income funds and/or equity funds which are issued and offered outside China. The aggregate investments in fixed income funds and equity funds (whether authorised by the CSRC for offer to the retail public in China or issued and offered outside China) will be up to 10% of the Net Asset Value of the Sub-Fund.

The Sub-Fund may invest up to 10% of its total Net Asset Value in asset backed securities (including asset backed commercial papers).

At least 70% of the Onshore Debt Securities (i.e. debt securities issued within China) invested by the Sub-Fund will be issued by governments and quasi-government organisations, or have a minimum credit rating of AA as rated by one of the credit rating agencies in China. The Sub-Fund will not invest in Onshore Debt Securities which are rated BB+ or below as rated by one of the credit rating agencies in China or unrated debt instruments (i.e. debt instruments which neither the debt instrument itself nor its issuer has a credit rating).

For Offshore Debt Securities (i.e. debt securities issued outside China), the Sub-Fund does not impose any credit rating requirement (and these securities may be rated BB+ or below by any credit rating agencies or unrated).

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

The Sub-Fund may also invest in other RMB denominated and settled near-cash instruments issued within or outside China, such as bank certificates of deposit, bank deposits and negotiated term deposits with banks.

Exposure to debt securities issued within China will be through the RQFII quotas of the Manager, investing in the China Interbank Bond Market under the Foreign Access Regime and/or Bond Connect (as defined below) and/or other means as may be permitted by the relevant regulations from time to time. Exposure through the Foreign Access Regime will be less than 70% of the Sub-Fund's Net Asset Value.

The Sub-Fund may invest in derivatives (including but not limited to swaps, futures and deliverable and non-deliverable forwards) for hedging purposes only. The Sub-Fund will not invest in any derivatives for investment purpose. The Sub-Fund will not invest in structured deposits or products.

The Manager currently intends to enter into sale and repurchase and/or reverse repurchase transactions outside China in respect of the Sub-Fund, subject to the section headed "Securities Financing Transactions" below.

The Manager will not enter into any securities lending or other securities financing transactions in respect of the Sub-Fund.

### **Investment Strategy**

The Manager seeks to achieve long term capital growth mainly through the active management of RMB denominated and settled debt instruments.

#### *Debt securities*

The Manager's investment strategy is to construct the duration of the debt securities investment portfolio based on expectations of the changes in RMB interest rates. Duration measures the sensitivity of bond prices to the change of interest rates (or yield). The Sub-Fund will apply analysis in credit risk and liquidity risk to adjust the allocation of investment in debt securities and increase returns on investment. Further, the Sub-Fund will seek to invest in undervalued debt securities, which are selected through the Manager's pricing technique.

### **Investment and Borrowing Restrictions**

The Sub-Fund is subject to the investment and borrowing restrictions as set out in the Explanatory Memorandum under the heading “***Investment and Borrowing Restrictions***” and Schedule 1.

### **Use of Derivatives**

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

### **Securities Financing Transactions**

The Manager currently does not intend to enter into securities lending or similar over-the-counter transactions.

The Manager may, on behalf of the Sub-Fund, enter into sale and repurchase and/or reverse repurchase transactions outside China for up to 20% of the Net Asset Value of the Sub-Fund with a view to creating additional income. For the avoidance of doubt, the aggregate exposure of sale and repurchase transactions with the Sub-Fund’s borrowing will be up to 25% of the Sub-Fund’s Net Asset Value.

A summary of the policy in respect of the Sub-Fund’s securities financing transactions are set out in Schedule 2 of the Explanatory Memorandum.

### **Overview of the onshore Debt Securities Market**

The PRC bond market consists 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 and targets non-bank institutions and individuals investors; and (iii) the bank over-the-counter market regulated by the People’s Bank of China and targets non-financial institutions and individual investors. However, the current 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 different PRC bond markets are set out in the table below.

|                                      | <b>Interbank Bond Market</b>                                                                                                                                                                                                                                                            | <b>Exchange Traded Bond Market</b>                                                                                                                                                                                                 |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Size                                 | In 2017, 96% of all bond transactions<br>(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.com.cn">www.szse.com.cn</a> )                                                     | In 2017, 4% of all bond transactions<br>(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.com.cn">www.szse.com.cn</a> ) |
| Major types of products being traded | Government bonds (including municipal bonds), central bank bills, financial bonds, enterprise bonds, commercial papers, mid-term notes, asset backed securities, panda bonds (i.e. RMB-denominated bonds issued by international financial institutions within the boundaries of China) | Government bonds (including municipal 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), QFIIs, RQFIIs                                                                                                                                                               | Individuals and non-bank institutions (such as insurance companies and funds), QFIIs, RQFIIs                                                                                                                                       |
| Trading and settlement mechanism     | Trades through bilateral negotiation and settle trade-for-trade; settlement cycle: T+0 or T+1                                                                                                                                                                                           | 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<br>Credit risk of bond issuers<br>Liquidity risk                                           | Counterparty risk<br>Credit risk of bond issuers<br>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 debt securities and their issuers are set out below.

| Debt Securities                                     | Issuer                                                                                                                  |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Central Bank Notes/Bills                            | People's Bank of China                                                                                                  |
| Government Bonds (including municipal bonds)        | Ministry of Finance and local government bodies                                                                         |
| Treasury Bonds                                      | Ministry of Finance                                                                                                     |
| Policy Bank Bonds                                   | three policy banks (China Development Bank, Agriculture Development Bank of China, and The Export-Import Bank of China) |
| Enterprise Bonds (企業債)                              | enterprises (mostly state-owned)                                                                                        |
| Commercial Paper (短期融資券) / Medium-Term Notes (中期票據) | non-financial enterprises                                                                                               |
| Corporate Bonds (公司債)                               | corporations                                                                                                            |

The yield of the major RMB denominated instruments issued in the PRC was in the range of 2% to 5% for government bonds and 3% to 32% for corporate bonds, and 3% to 5% for policy bank bonds during 2017 (Source: Winds). However, investors should note that this is not an

indication of the expected return of the Sub-Fund. There is no assurance that the Sub-Fund's return will be correlated with the expected yield of its underlying investments.

### PRC Credit Rating Agencies

Some global 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 major domestic credit rating agencies in China include:

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

These domestic credit rating agencies in the PRC are regulated by competent mainland authorities. The domestic ratings agencies mainly provide credit ratings to publicly listed and interbank market bonds. The definition and methodology of ratings vary among domestic credit agencies.

In relation to the exchange traded bond market, the China Securities Regulatory Commission ("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 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 rating agencies, domestic 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.

### **Foreign Access Regime / Bond Connect**

#### *Overview*

Foreign institutional investors (such as the Sub-Fund) can invest in Mainland China interbank bond markets (“**China Interbank Bond Market**”) via the Foreign Access Regime and/or the Bond Connect (as defined below).

*Investment in China Interbank Bond Market via the Foreign Access Regime*

Pursuant to the “Announcement (2016) No 3” issued by the People’s Bank of China (“**PBOC**”) (中國人民銀行公告 [2016]第 3 號) on 17 February 2016, foreign institutional investors can invest in China Interbank Bond Market (“**Foreign Access Regime**”) subject to other rules and regulations as promulgated by the Mainland Chinese authorities, i.e., PBOC and the State Administration of Foreign Exchange (“**SAFE**”). Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the “Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets” (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of PBOC on 27 May 2016;
- (ii) the “Circular concerning the Foreign Institutional Investors’ Investment in Interbank bond market in relation to foreign currency control” (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016;
- (iii) the “Announcement on Matters concerning Filing Management by Foreign Investors for Investment in China Interbank Bond Markets” (關於境外投資者進入中國銀行間債券市場備案管理有關事項的公告) issued by the Shanghai Head Office of PBOC on 19 June 2018;
- (iv) the “Circular Concerning Further Facilitating Investment by Foreign Institutional Investors in the Interbank Bond Market”(中國人民銀行、國家外匯管理局關於進一步便利境外機構投資者投資銀行間債券市場有關事項的通知) issued by PBOC and SAFE on 30 September 2019; and
- (v) any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in Mainland China, foreign institutional investors who wish to invest directly in China Interbank Bond Market may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation.

In terms of fund remittance, foreign investors (such as the Sub-Fund) may remit investment principal in RMB or foreign currency into Mainland China for investing in the China Interbank Bond Market. For repatriation, where the Sub-Fund repatriates funds out of Mainland China, the ratio of RMB to foreign currency (“**Currency Ratio**”) should generally match the original Currency Ratio when the investment principal was remitted into Mainland China, with a maximum permissible deviation of 10%.

*Investment in China Interbank Bond Market via Northbound Trading Link under Bond Connect*

Bond Connect is a new initiative launched in July 2017 for mutual bond market access between Hong Kong and Mainland China (“**Bond Connect**”) established by China Foreign Exchange Trade System & National Interbank Funding Centre (“**CFETS**”), China Central Depository & Clearing Co., Ltd, Shanghai Clearing House, and Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit.

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

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

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

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

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

### **Renminbi Qualified Foreign Institutional Investor (RQFII)**

Currently the Sub-Fund may obtain exposure to debt securities issued within mainland China by using the RQFII quotas of the Manager, which has obtained RQFII status in China.

The RQFII Custodian has been appointed by the Trustee to hold the assets of the Sub-Fund. The Manager in its capacity as a RQFII have appointed Bank of Communications Co., Ltd. as the RQFII Custodian in respect of the RQFII securities, pursuant to relevant laws and regulations.

Securities including RMB denominated debt securities will be maintained by the RQFII Custodian pursuant to PRC regulations through securities account(s) with the China Securities Depository and Clearing Corporation Limited, China Central Depository & Clearing Co. Ltd, Shanghai Clearing House Co., Ltd. or such other relevant depositories in such name as may be permitted or required in accordance with PRC law.

Investors should pay attention to the sections headed “RQFII risk” and “PRC brokerage risk” under the “Specific Risk Factors” section. The Manager has obtained an opinion from PRC legal counsel to the effect that, as a matter of PRC laws:

- (a) securities account(s) with relevant depositories and RMB special deposit account(s) with the RQFII Custodian (respectively, the “securities account(s)” and the “cash account(s)”) 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;

- (b) 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 holder), the RQFII Custodian and any PRC Broker(s) and from the assets of other clients of the Manager (as RQFII holder), the RQFII Custodian and any PRC Broker(s);
- (c) the assets held/credited in the cash account(s) (i) become an unsecured debt owing from the RQFII Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder) and any PRC Broker(s), and from the assets of other clients of the Manager (as RQFII holder) and any PRC Broker(s);
- (d) 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;
- (e) 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(s) in liquidation in the PRC; and
- (f) if the RQFII 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 RQFII 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 RQFII Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the cash account(s).

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

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

- (iii) the RQFII Custodian will look to the Trustee for instructions and solely act in accordance with such instructions, save as otherwise required under applicable regulations.

The Manager will assume dual roles as the Manager of the Sub-Fund and the holder of RQFII quotas for the Sub-Fund. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with in compliance with the Trust Deed (where applicable) as well as the relevant laws and regulations applicable to the Manager as a RQFII. If any conflicts of interest arise, the Manager will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly.

### **PRC Tax Provisions**

For further details relating to PRC taxes and the associated risks, please refer to the risk factor headed “**PRC tax considerations**” under the “**Risk Factors**” section.

In order to meet the potential tax liability on capital gains arising from disposal of PRC Securities, the Manager reserves the right to provide for withholding income tax on such gains and withhold the tax for the account of the Sub-Fund.

#### *Tax reporting on gross realised capital gains derived from trading of debt securities*

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of debt securities issued by PRC tax resident enterprises. The tax treatment for investment in debt securities issued by PRC tax residents is governed by the general taxing provisions of the CIT Law. Under such general taxing provision, the Sub-Fund would be potentially subject to 10% PRC WIT on the PRC-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

Pursuant to Article 7 of the Detailed Implementation Regulations of the PRC CIT Law, where the property concerned is a movable property, the source of capital gain shall be determined according to the location of the enterprise, establishment or place which transfers the property. The PRC tax authorities have verbally indicated that debt instruments issued by PRC tax resident enterprises are movable property. In this case, the source shall be determined based on the location of the transferor. As the Sub-Fund is located outside the PRC, gains derived by the Sub-Fund from debt instruments issued by PRC tax resident enterprises could be argued as offshore sourced and thus not subject to PRC WIT. However,

there is no written confirmation issued by the PRC tax authorities that debt instruments issued by PRC tax resident enterprises are movable property.

In addition to the verbal comments, Article 13.6 of the China-HK Arrangement provides that any gains derived by a Hong Kong tax resident from the disposal of PRC properties that are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement shall be taxable only in Hong Kong. As the debt instruments issued by the PRC tax resident enterprises are not referred to in Articles 13.1 to 13.5 of the China-HK Arrangement, capital gains derived by the Hong Kong tax resident from the disposal of debt instruments issued by the PRC tax resident enterprises should technically be exempt from PRC WIT provided all the other relevant treaty conditions are satisfied, subject to agreement by the PRC tax authorities. In order to qualify for this preferential treatment, the Manager will further assess and seek agreement from the PRC tax authorities in relation to the relevant Sub-Fund, although this cannot be guaranteed.

However, in practice, the PRC tax authorities have not actively enforced the collection of PRC WIT in respect of gains derived by non-PRC tax resident enterprises from the trading of debt securities. The PRC tax authorities have verbally indicated that capital gains derived from trading of PRC securities are not subject to PRC WIT. As such, the Manager, on behalf of the Sub-Fund, submitted a “nil” basis tax return for gross realised capital gains derived from trading of PRC debt securities to the Shanghai tax authority and the Shanghai tax authority endorsed the said nil basis tax return.

*Review of the tax reporting and tax treaty application package by Shanghai tax authority and payment of WIT*

At the request of Shanghai tax authority, the Manager, as the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”), submitted the requested information and documents on behalf of the Sub-Fund to the Shanghai tax authority in October 2015 to:-

- a. report the WIT payable on gross realised capital gains derived from trading of immovable properties-rich A-shares;
- b. apply for WIT exemption on gross realised capital gains derived from trading of A-shares which are non-immovable properties-rich companies under the China-HK Arrangement;
- c. submit a nil basis tax return to report the gross realised capital gains derived from trading of PRC debt securities since inception to 31 December 2014 on the basis that such gains are not subject to PRC WIT.

The documents submitted include the HKTRCs for the Sub-Fund as described above, as part of the application for the Shanghai tax authority’s approval for the eligibility of the Sub-Fund

to benefit from the China-HK Arrangement. In addition, a “nil” basis tax return for gross realised capital gains derived from trading of PRC debt securities was also submitted to the Shanghai tax authority.

The Shanghai tax authority completed review on the Sub-Funds’ aforesaid tax reporting and tax treaty applications and issued a document on its official web-site notifying the Sub-Funds of the tax treaty application result. Shanghai tax authority indicates that it agrees with the Sub-Funds’ tax treaty application submitted. In addition, the Shanghai tax authority also endorsed the nil basis return for gross realised capital gains derived from trading of debt securities.

Therefore, the Manager has determined that no provision for WIT will be made on gross realised or unrealised capital gains derived from trading of PRC debt securities with effect from 4 November 2015.

Unitholders should note that the aforesaid tax filing and tax treaty application are made in accordance with the prevailing tax rules and practices of the Shanghai tax authority at the time of submission. The Net Asset Value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the PRC tax authority.

*PRC sourced passive income (such as dividend and interest)*

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

Under the China-HK Arrangement, the WIT charged on interests received by non-resident enterprise holders of debt instruments will be reduced to 7% of the gross amount of the interests, if the holders are Hong Kong residents and are the beneficial owners of the interests under the China-HK Arrangement and other relevant conditions are satisfied. In practice, due to the practical difficulties in demonstrating the Sub-Fund is the beneficial owner of the

interests received, the Sub-Fund is generally not eligible for the reduced WIT rate of 7%. In general, the prevailing 10% will be applicable to the Sub-Fund.

Under the PRC CIT Law, interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempt from PRC income tax under CIT law.

On 7 November 2018, the MOF and the SAT issued Circular 108 which stipulated that foreign institutional investors are exempted from PRC WIT and VAT in respect of bond interests received from 7 November 2018 to 6 November 2021 from investments in the China bond market. As this exemption granted under Circular 108 is temporary, it is uncertain whether such exemption policy would be extended after 6 November 2021.

In light of the above, the Manager, having consulted with independent and professional tax advisor, has decided to make a provision of 10% for the account of the Sub-Fund on PRC sourced passive income (such as dividend income or interest income) arising from investments in the PRC Securities, except bond interests from investments in the China bond market received from 7 November 2018 to 6 November 2021.

#### *Value Added Tax and other surtaxes*

On 23 March 2016, the MOF and the SAT jointly issued Notice No. 36 announcing that the B2V Pilot Program will be rolled out to cover all remaining industries, including financial services. Notice 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

Pursuant to Notice 36, interests derived from bonds issued by PRC tax resident enterprises should be subject to VAT at 6% plus local surtaxes, unless specifically exempted. Interests derived from PRC government bonds issued by the in-charge Finance Bureau of the State Council and/or local government bonds approved by the State Council are exempted from VAT. On 7 November 2018, the MOF and the SAT issued Circular 108 which stipulated that foreign institutional investors are exempted from PRC WIT and VAT in respect of bond interests received from 7 November 2018 to 6 November 2021 from investments in the China bond market.

Under Notice No. 36 and Caishui [2016] No.70, gains realised by QFIIs and RQFIIs from trading of PRC Securities are exempted from VAT. Gains realized by approved foreign investors from trading of RMB denominated debt securities in the China Interbank Bond Market are also exempt from VAT.

Dividend income or profit distributions on equity investment derived from the PRC are not subject to VAT.

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

In light of the above, the Manager, having consulted with independent and professional tax advisor, has decided to make a provision in an amount equal to the total of (i) for VAT, 6% of the bond coupon interest (except PRC government bonds or local government bonds, or such bond coupon interest received from 7 November 2018 to 6 November 2021) received by the Sub-Fund; plus (ii) for the potential local surtaxes on VAT, 12% of the VAT amount stated in (i). In other words, the provision is equal to 6.72% of the bond coupon interest (except PRC government bonds or local government bonds, or such bond coupon interest received from 7 November 2018 to 6 November 2021) received by the Sub-Fund.

#### *General*

It is possible that the current tax laws, regulations and practice in the PRC will change, including the possibility of taxes being applied retrospectively, and that such changes may result in higher taxation on PRC investments than currently contemplated. Any tax provision made by the Manager in respect of the Sub-Fund may be more than or less than the Sub-Fund's respective actual tax liabilities, which may potentially cause substantial loss to the Sub-Fund. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly.

If it is subsequently determined that PRC tax is payable and that no PRC tax has been provisioned for, investors should note that the Net Asset Value of a Sub-Fund may fall significantly as the relevant Sub-Fund will have to bear the tax liabilities. If a Sub-Fund had made a PRC tax provision, upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, any sums withheld in excess of the tax liability incurred or is expected to be incurred by a Sub-Fund shall be released and transferred to the Sub-Fund's accounts forming part of the Sub-Fund's assets. It should also be noted that the actual applicable tax amount imposed on the income and/or gains derived from investment held by a Sub-Fund may be different and may change from time to time due to the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied

retrospectively. As such, the amount of such provisions (if any) may not be sufficient to meet the actual tax liabilities.

With the uncertainties under the applicable PRC tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC tax liabilities on income and/or gains derived from investments held by a Sub-Fund. Consequently, investors may be advantaged or disadvantaged depending upon the final outcome of how such income and/or gains will be taxed, the level of provision and when they subscribed and/or realized their Units in/from a Sub-Fund. If the actual applicable tax amount levied by the 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 a 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 amount 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 Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in a Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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 relevant 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 a Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

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

### **Specific Risk Factors**

In addition to the specific risks of investing in the Sub-Fund mentioned, investors should also refer to the relevant risks under the section headed “Risk Factors” in the Explanatory Memorandum according to the nature of the Sub-Fund. Investors should note that the risk factors as mentioned in the Explanatory Memorandum and this Appendix are general risks associated with investments in the Sub-Fund and investors should consider the information provided in these documents before investing in the Sub-Fund.

**The Net Asset Value per Unit may fall or rise. There can be no assurance that an investor will achieve any return on an investment in the Units or a return on the capital invested. Investors should not invest in the Sub-Fund unless they fully understand and are willing to take the various risks associated with the Sub-Fund’s underlying investments (which may expose the Sub-Fund to significant losses in terms of income as well as principal), and have the financial resources necessary to bear the substantial, or even total, loss of the capital invested.**

**Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the Sub-Fund is suitable for them, they should obtain independent professional financial advice.**

In addition, investors should avoid excessive investment in any single type of investments (in terms of its proportion in the overall investment portfolio), including any proposed investment in the Sub-Fund, so as to avoid the investment portfolio being over-exposed to any particular investment risk.

**Investment risk** - 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 debt securities. There is also no guarantee of dividend or distribution payments during the period an investor holds Units in the Sub-Fund.

**China market / Single country investment** – Insofar as the Sub-Fund invests substantially in securities related to the China market, it will be subject to risks inherent in the China market and additional concentration risks. Please refer to the risk factors headed “China market risk” and “Concentration risk” in the main part of the Explanatory Memorandum.

**Convertible bonds** - The Sub-Fund may invest up to 100% in convertible bonds. Convertibles are a hybrid between debt and equity, permitting holders to convert into shares or stocks in the

company issuing the bond at a specified future date. Prior to conversion, convertible bonds have the same general characteristics as non-convertible debt securities and the market value of convertible bonds tends to decline as interest rates increase and increase as interest rates decline. However, while convertible bonds generally offer lower interest or dividend yields than non-convertible debt securities of similar quality, they enable the Sub-Fund to benefit from increases in the market price of the underlying stock, and hence the price of a convertible bond will normally vary with changes in the price of the underlying stock. Therefore, investors should be prepared for greater volatility than straight bond investments, with an increased risk of capital loss, but with the potential of higher returns.

Investors should also note the interest rate risk associated with investments in debt instruments. Please refer to the risk factor headed “Interest rate risk” under the section headed “Risk Factors” in the main part of the Explanatory Memorandum for details.

***Renminbi currency risk and foreign exchange risk*** – RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub-Fund’s or the investors’ position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of their investments will be adversely affected. If investors convert Hong Kong Dollar or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into Hong Kong Dollar or any other currency, they may suffer a loss if RMB depreciates against Hong Kong Dollar or other currency.

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

***Currency Conversion Risk*** - Where an investor subscribes for Units denominated in a non-RMB currency, the Manager may convert such subscriptions into RMB prior to investment at the applicable exchange rate and subject to the applicable spread. The Sub-Fund may incur costs as a result of the conversion. As RMB is not freely convertible, currency conversion is subject to availability of RMB at the relevant time (i.e. it is possible there is not sufficient RMB for currency conversion in case of sizeable subscriptions). As such, the Manager has the

absolute discretion to reject any application made in non-RMB currency funds where it determines that there is insufficient RMB for currency conversion.

Where an investor redeems Units denominated in a non-RMB currency, the Manager may sell the Sub-Fund's investments denominated in RMB and convert such proceeds into non-RMB currency at the applicable exchange rate and subject to the applicable spread. Again the Sub-Fund may incur costs as a result of the conversion. Currency conversion is also subject to the Sub-Fund's ability to convert the proceeds denominated in RMB into non-RMB currency which, in turn, might affect the Sub-Fund's ability to meet redemption requests from the Unitholders or delay the payment of redemption proceeds. However it is the current intention of the Manager that redemption proceeds will normally be paid within a period of 7 HK & PRC Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units.

Whilst RMB is traded both onshore in the PRC and offshore (primarily in Hong Kong), it is the same currency although currently traded at different rates. The exchange rate for the onshore RMB market in the PRC is generally referred to as "CNY"; the exchange rate for the offshore RMB market in Hong Kong is generally referred to as "CNH". In respect of a Class of Units which is denominated in a currency other than RMB, the CNH rate will be used for the purposes of determining the Net Asset Value of such Class of Units.

The RMB traded in the PRC is not freely convertible and is subject to exchange controls and certain requirements by the government of the PRC. The RMB traded outside the PRC, on the other hand, is subject to different regulatory requirements and is more freely tradable when compared to the RMB traded in the PRC.

In calculating the Net Asset Value of Classes of Units denominated in a non-RMB currency, the Manager will apply the CNH exchange rate for the offshore RMB market in Hong Kong. The CNH rate may be at a premium or discount to the exchange rate for the onshore RMB market in China (i.e. the CNY exchange rate); there may be significant bid and offer spreads due to supply and demand. Consequently, there may be significant trading costs incurred and investing in Classes of Units denominated in a non-RMB currency may suffer losses. The value of the Classes of Units denominated in a non-RMB currency is subject to fluctuation in the CNH rate. In particular, where the CNH rate is at a premium to the CNY exchange rate, any currency conversion at the CNH rate will adversely affect the value of the relevant Class of Units denominated in a non-RMB currency in RMB terms and increase the costs of

acquiring investments in RMB terms for the Sub-Fund using subscription proceeds from such Class of Units.

***Risks associated with the Foreign Access Regime and Bond Connect*** - Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China Interbank Bond Market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund investing in such market is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

To the extent that the Sub-Fund transacts in the China Interbank Bond Market, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

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

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

Further, trading through Bond Connect is performed through newly developed trading platforms and operational systems. There is no assurance that such systems will function properly or will continue to be adapted to changes and developments in the market. In the event that the relevant systems fails to function properly, trading through Bond Connect (and hence to pursue its investment strategy) may therefore be adversely affected. In addition, where Sub-Fund invests in the China Interbank Bond Market through Bond Connect, it may be subject to risks of delays inherent in the order placing and/or settlement systems.

**RQFII risk** - The Sub-Fund is not a RQFII but may obtain access to Renminbi denominated debt instruments or other permissible investments directly using RQFII quotas of a RQFII. The Sub-Fund may invest directly in RQFII eligible securities investment via the RQFII status of the Manager. The Manager (as RQFII holder) may from time to time make available RQFII quota for the purpose of the Sub-Fund's direct investment into the PRC. Under the SAFE's RQFII quota administration policy, the Manager has the flexibility to allocate its RQFII quota across different fund products under the Manager's management. The Manager may therefore allocate additional RQFII quota to the Sub-Fund, or allocate RQFII quota which may otherwise be available to the Sub-Fund to other fund products under the Manager's management. The Manager may also apply to SAFE for additional RQFII quota which may be utilised by the Sub-Fund, other clients of the Manager or other products managed by the Manager. However, there is no assurance that the Manager will make available RQFII quota that is sufficient for the Sub-Fund's investment at all times. The Manager may decide to close the Sub-Fund to further subscriptions without any prior or further notice if the total subscription amount reaches the amount of RQFII quota allocated to the Sub-Fund by the Manager. The Sub-Fund may not have exclusive use of the entire RQFII quota granted by SAFE to the RQFII (i.e. the Manager), as the RQFII may in its discretion allocate RQFII quota which may otherwise be available to the Sub-Fund to fund products under the Manager's management. There can be no assurance that the RQFII can allocate sufficient RQFII quota to the Sub-Fund to meet all applications for subscription of Units in the Sub-Fund.

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

The State Administration of Foreign Exchange ("SAFE") regulates and monitors the repatriation of funds out of the PRC by the RQFII pursuant to its "Circular on Issues Related to the Domestic Securities Investment Management through Renminbi Qualified Foreign Institutional Investors" (中國人民銀行國家外匯管理局關於人民幣合格境外機構投資者境內證券投資管理有關問題的通知). Repatriations by RQFIIs in respect of an open-ended RQFII fund (such as the Sub-Fund) conducted in RMB are currently not subject to repatriation restrictions or prior approval, although a review on authenticity and compliance will be conducted on each remittance and repatriation by the RQFII Custodian. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests

from the Unitholders. Furthermore, as the RQFII Custodian's review on authenticity and compliance is conducted on each repatriation, the repatriation may be delayed or even rejected by the RQFII Custodian in case of non-compliance with the RQFII rules and regulations. In such case, it is expected that redemption proceeds will be paid to the redeeming Unitholder as soon as practicable and after the completion of the repatriation of funds concerned. It should be noted that the actual time required for the completion of the relevant repatriation will be beyond the Manager's control.

RQFII quotas are generally granted to a RQFII. The rules and restrictions under RQFII regulations generally apply to the RQFII as a whole and not simply to the investments made by the Sub-Fund. It is provided in the RQFII rules that the size of the quota may be reduced or cancelled by the SAFE if the RQFII is unable to use its RQFII quota effectively within one year since the quota is granted. If SAFE reduces the RQFII's quota, it may affect the Manager's ability to effectively pursue the investment strategy of the Sub-Fund. On the other hand, the SAFE is vested with the power to impose regulatory sanctions if the RQFII or the RQFII Custodian violates any provision of the RQFII rules. Any violations could result in the revocation of the RQFII's quota or other regulatory sanctions and may adversely impact on the portion of the RQFII's quota made available for investment by the Sub-Fund.

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

The current RQFII laws, rules and regulations are subject to change, which may take retrospective effect. In addition, there can be no assurance that the RQFII laws, rules and regulations will not be abolished. The Sub-Fund, which invests in the PRC markets through a RQFII, may be adversely affected as a result of such changes.

***Application of RQFII rules*** - The RQFII rules described under "RQFII risk" in the section headed "Risk Factors" enable Renminbi to be remitted into and repatriated out of the PRC.

The application of the rules may depend on the interpretation given by the relevant Chinese authorities. Any changes to the relevant rules may have an adverse impact on investors' investment in the Sub-Fund. In the worst scenario, the Manager may determine that the Sub-Fund shall be terminated if it is not legal or viable to operate the Sub-Fund because of changes to the application of the relevant rules.

***Cash deposited with the RQFII Custodian*** - Investors should note that cash deposited in the cash account of the Sub-Fund with the RQFII Custodian will not be segregated but will be a debt owing from the RQFII Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash that belongs to other clients or creditors of the RQFII Custodian. In the event of bankruptcy or liquidation of the RQFII 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 RQFII Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer.

***PRC brokerage risk*** – The execution and settlement of transactions or the transfer of any funds or securities may be conducted by brokers (“PRC Brokers”) appointed by the RQFII. There is a risk that the Sub-Fund may suffer losses from the default, bankruptcy or disqualification of the PRC Brokers. In such event, the Sub-Fund may be adversely affected in the execution or settlement of any transaction or in the transfer of any funds or securities.

In selection of PRC Brokers, the RQFII will have regard to factors such as the competitiveness of commission rates, size of the relevant orders and execution standards. If the RQFII considers appropriate, it is possible that a single PRC Broker will be appointed and the Sub-Fund may not necessarily pay the lowest commission available in the market.

***Credit risk of issuers / counterparties*** – Investment in debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. Some of the debt securities that the Sub-Fund invests may be unrated. In general, debt securities that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. Please refer to the risk factor headed “Lower rated and unrated securities risk” in the main part of the Explanatory Memorandum. In the event of a default or credit rating downgrading of the issuers, 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 such issuers as they may be incorporated outside Hong Kong and subject to foreign laws.

Investors should note the limitations of credit ratings set out under the risk factors headed “Credit rating downgrading risk” in the main part of the Explanatory Memorandum. In addition, the Sub-Fund may invest in securities the credit ratings of which are assigned by the Chinese local credit rating agencies. However, the rating criteria and methodology used by such agencies may be different from those adopted by most of the established international credit rating agencies. Therefore, such rating system may not provide an equivalent standard for comparison with securities rated by international credit rating agencies.

Where the Sub-Fund invests in debt instruments and/or near-cash instruments, bank deposits and / or certificates of deposit are generally offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant counterparty. As a result, if the counterparty becomes bankrupt, proceeds from the liquidation of the counterparty’s assets will be paid to holders of bank deposits and / or certificates 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.

***Lower rated and unrated securities risk*** - The Sub-Fund may invest in Offshore Debt Securities which are BB+ or below as rated by any international credit rating agency or which are unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk and liquidity risk than higher rated lower yielding securities. The ability of the issuer to make timely interest and principal payments will be especially susceptible to uncertainties and adverse changes in its financial conditions. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. Further, the market for these securities may be less active, making it more difficult to sell the securities at a price or time that the Sub-Fund wishes to do so. Valuation of these securities is more difficult. The values of these securities tend to be more volatile and sensitive to individual issuer developments and general economic conditions than the values of higher rated securities. As a result, the relevant Sub-Fund’s prices may be more volatile.

***Counterparty and settlement risk*** – Investment in debt securities will expose the Sub-Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher in the interbank bond market (a quote-driven over-the-counter (OTC) market) where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

There are various transaction settlement methods in the interbank bond market, such as the delivery of security by the counterparty after receipt of payment by the Sub-Fund; payment by the Sub-Fund after delivery of security by the counterparty, or simultaneous delivery of security and payment by each party. Although the Manager may endeavour to negotiate terms which are favourable to the Sub-Fund (e.g. requiring simultaneous delivery of security and payment), there is no assurance that settlement risks can be eliminated. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund will sustain losses.

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

***Liquidity risk*** - The RMB denominated debt securities market (including both onshore and offshore markets) is at a developing stage and the market capitalisation and trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated debt securities market may result in prices of debt securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

The debt securities 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. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities. The price at which the debt securities 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 spreads of the price of debt securities in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

***Valuation risk*** – Valuation of a Sub-Fund's investments may involve uncertainties and judgmental determinations, and independent pricing information may not at all times be

available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may be adversely affected.

The value of debt securities may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.

In particular, the value of lower-rated or unrated corporate bonds is affected by investors' perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer, the bond may not be objectively priced and lower rated or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

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

***Dim Sum bond markets risks*** – "Dim Sum bonds" are bonds issued outside of mainland China but denominated in RMB. The Dim Sum bond market is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the Dim Sum bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability

of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

***Risk of investing in asset backed securities (including asset backed commercial papers) -***

The Sub-Fund may invest in asset backed securities. Such securities provide exposure, synthetically or otherwise, to underlying assets and the risk/return profile is determined by the cash flows derived from such assets. Asset backed securities may involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of the asset backed securities could be contingent on, or highly sensitive to, changes in the underlying components of the asset backed securities. The underlying assets can take many forms including, but not limited to, credit card receivables, manufactured housing loans or any type of receivables from a company. Asset backed securities may employ leverage which can cause the price of the instruments to be more volatile than if they had not employed leverage. In addition, investments in asset backed securities may be less liquid than other securities. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets' value and consequently the Sub-Fund investing in asset backed securities may be more susceptible to liquidity risk. The liquidity of asset backed securities can be less than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted. In addition, asset backed securities are subject to prepayment risk, which is a risk that when interest rates decline or are low but are expected to rise, borrowers may pay off their debts sooner than expected. This can reduce the returns of a Sub-Fund because the Sub-Fund will have to reinvest such prepaid funds at the lower prevailing interest rates.

***Risk of Investing in Other Funds -*** Whilst the Sub-Fund may invest in fixed income funds and equity funds (whether authorised by the CSRC for offer to the retail public in China or issued and offered outside China), these may not be regulated by the SFC. In addition to the expenses and charges charged by the Sub-Fund, investor should note that there are additional fees involved when investing into these underlying funds, including fees and expenses charged by investment manager of these underlying funds as well as fees payable by the Sub-Fund during its subscription to or redemption from these underlying funds. Furthermore, there can be no assurance that 1) the liquidity of the underlying funds will always be sufficient to meet redemption request as and when made; and 2) investment objective and strategy will be successfully achieved despite the due diligence procedures undertaken by the Manager and the selection and monitoring of the underlying funds. If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, potential

conflict of interest may arise. Please refer to the section headed “Conflicts of Interest” for details under the circumstances.

***Risks relating to sale and repurchase agreements*** – In the event of the failure of the counterparty with which collateral has been placed, the Sub-Fund may suffer loss as there may be delays in recovering collateral placed out or the cash originally received may be less than the collateral placed with the counterparty due to inaccurate pricing of the collateral or market movements.

***Market risk and counterparty risk***

In respect of the collateral which has been placed with the counterparty, there is a risk that the value of the collateral placed with the counterparty is higher than that of the cash originally received owing to factors including the value of the collateral placed having exceeded the cash received, market appreciation of the value of the collateral or an improvement in the credit rating of the issuer of the collateral. Whilst the increased value of collateral, which is to be marked to market on a daily basis, could be fully protected by requiring a return of the collateral and/or margin calls to the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to return the relevant securities, the Sub-Fund would experience delays in recovering its securities and may possibly incur a capital loss.

The security collateral provided by the Sub-Fund to the counterparty is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. It is worth noting that the counterparty is subject to a higher risk in a sale and repurchase transaction (such as risk of default by the Sub-Fund to repurchase the security from the counterparty at a pre-determined future date). In the event that the value of the collateral placed with the counterparty falls by a value that exceeds the threshold pre-determined by the counterparty, due to factors including adverse market movements or a downgrade in the credit rating of the collateral, the Sub-Fund may be required to top up the value by changing the security collateral or provide a margin. Although the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

***Re-investment risk***

Cash obtained in sale and repurchase transactions may be re-invested in securities subject to the restrictions applicable to the Sub-Fund. While it is the intention of the Manager to

generate additional income for the Sub-Fund through reinvestment of cash, it is possible that the Sub-Fund may suffer loss of some or the entire re-invested amount.

***Risks relating to reverse repurchase agreements*** – In the event of the failure of the counterparty with which cash has been placed, the Sub-Fund may suffer loss as there may be delay in recovering cash placed out or difficulty in realising collateral or proceeds from the sale of the collateral may be less than the cash placed with the counterparty due to inaccurate pricing of the collateral or market movements.

***Market risk and counterparty risk***

In respect of the cash which has been advanced to the counterparty, there is a risk that the value of the collateral acquired by the Sub-Fund is lower than that of the cash originally lent owing to factors including market depreciation of the value of the collateral or a decline in the credit rating of the issuer of the collateral. Whilst the decreased value of collateral, which is to be marked to market on a daily basis could be fully protected by requiring additional collateral from the counterparty, investors must note that if the counterparty of such transactions becomes insolvent or refuses to honour its obligations to buy back the relevant securities, the Sub-Fund would experience delays in recovering the sum lent and may possibly incur a capital loss.

The security collateral provided by the counterparty to the Sub-Fund is normally marked to market daily by the counterparty and/or the Sub-Fund and where either of the parties disagrees with the value of the security collateral determined by the other party, the security collateral will be valued by a pre-appointed third party agent. It is worth noting that the Sub-Fund is subject to a higher risk in a reverse repurchase transaction (such as risk of default by the counterparty to repurchase the security from the Sub-Fund at a pre-determined future date). In the event that the value of the collateral acquired by the Sub-Fund increases by a value that exceeds the threshold pre-determined by the counterparty, due to factors including favourable market movements or an improvement in the credit rating of the collateral, the Sub-Fund may be required to return part of the collateral or provide a margin. Although the Sub-Fund may be required to post a margin for maintaining such transaction, the Sub-Fund may terminate the transaction at any time in order to avoid any further margin or risk.

***Risks Associated with Collateral Management and Re-investment of Cash Collateral*** - Where a Sub-Fund enters into a securities financing transaction or an OTC derivative transaction or securities financing transaction, collateral may be received from or provided to the relevant counterparty.

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

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

In a reverse repurchase transaction, the Sub-Fund will be exposed to market risk in respect of any such investments and may incur a loss in reinvesting the financing charges and cash collateral it receives. It will be exposed to the risk of loss due to the failure or default of the issuer of the relevant security in which reinvestment is made. Such a loss may arise due to a decline in the value of the investment made. A decline in the value of investment of the cash collateral would reduce the amount of collateral available to be returned by the Sub-Fund to the counterparty at the conclusion of the relevant contract. The Sub-Fund would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Sub-Fund.

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

***Hedging / derivative risk*** – The use of financial derivative instruments may expose the Sub-Fund to additional risks including volatility risk, credit risk, liquidity risk, management risk, valuation risk, counterparty risk and over-the-counter transaction risk. The leverage element/component of a financial derivative instrument can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund. The Sub-Fund may invest in derivatives and in adverse situations its use of financial derivative instruments for hedging purposes may become ineffective and/or cause the Sub-Fund to suffer significant loss. Please refer to the risk factors headed “Hedging risk”

and “Derivative and structured product risk” in the main part of the Explanatory Memorandum.

**Other risks** - Investment in the Sub-Fund is subject to risks that apply to debt securities, including the credit risk of the issuers and interest rate risk. Further, investors should note the relevant PRC tax considerations that apply to the Sub-Fund. Investors should refer to the relevant risk factors headed “Interest rates risk” and “PRC tax considerations” in the main part of the Explanatory Memorandum.

In particular, the Chinese government’s macro-economic policies and controls (including its monetary and fiscal policies) will have significant influence over the capital markets in China. Changes in fiscal policies, such as interest rates policies, may have an adverse impact on the pricing of debt securities held by the Sub-Fund. The return of the Sub-Fund will be adversely affected as a result.

## Available Classes

Classes of Units in the Sub-Fund may be either accumulating or distributing.

Class A (accumulation) Units, Class A (distribution) Units, Class T (accumulation) Units and Class T (distribution) Units are available for sale to the retail public in Hong Kong.

Class I (accumulation) Units and Class I (distribution) Units are offered to institutional investors only.

## Investment Minima

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum Subscription Amount | <p><b>Class A RMB (accumulation) &amp; Class A RMB (distribution):</b> RMB500</p> <p><b>Class T RMB (accumulation) &amp; Class T RMB (distribution):</b> RMB50,000</p> <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> USD100</p> <p><b>Class A USD Hedged (accumulation) &amp; Class A USD Hedged (distribution):</b> USD100</p> <p><b>Class T USD (accumulation) &amp; Class T USD (distribution):</b></p> |
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|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                        | <p>USD10,000</p> <p><b>Class I RMB (accumulation) &amp; Class I RMB (distribution):</b><br/>RMB1,000,000</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b><br/>HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b><br/>USD100,000</p> <p><b>Class I USD Hedged (accumulation) &amp; Class I USD Hedged (distribution):</b> USD 100,000</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Minimum Subsequent Subscription Amount | <p><b>Class A RMB (accumulation) &amp; Class A RMB (distribution):</b> RMB500</p> <p><b>Class T RMB (accumulation) &amp; Class T RMB (distribution):</b> RMB50,000</p> <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> USD100</p> <p><b>Class A USD Hedged (accumulation) &amp; Class A USD Hedged (distribution):</b> USD100</p> <p><b>Class T USD (accumulation) &amp; Class T USD (distribution):</b> USD10,000</p> <p><b>Class I RMB (accumulation) &amp; Class I RMB (distribution):</b><br/>RMB1,000,000</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b><br/>HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b><br/>USD100,000</p> <p><b>Class I USD Hedged (accumulation) &amp; Class I USD Hedged (distribution):</b> USD 100,000</p> |
| Minimum Holding                        | <p><b>Class A RMB (accumulation) &amp; Class A RMB (distribution):</b> Units with aggregate minimum value of RMB500</p> <p><b>Class T RMB (accumulation) &amp; Class T RMB (distribution):</b> Units with aggregate minimum value of RMB50,000</p> <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> Units with aggregate minimum value of HKD500</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

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|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b><br/>Units with aggregate minimum value of USD100</p> <p><b>Class A USD Hedged (accumulation) &amp; Class A USD Hedged (distribution):</b> USD100</p> <p><b>Class T USD (accumulation) &amp; Class T USD (distribution):</b><br/>Units with aggregate minimum value of USD10,000</p> <p><b>Class I RMB (accumulation) &amp; Class I RMB (distribution):</b><br/>Units with aggregate minimum value of RMB1,000,000</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b><br/>Units with aggregate minimum value of HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b><br/>Units with aggregate minimum value of USD100,000</p> <p><b>Class I USD Hedged (accumulation) &amp; Class I USD Hedged (distribution):</b> USD 100,000</p>                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Minimum Redemption Amount | <p><b>Class A RMB (accumulation) &amp; Class A RMB (distribution) :</b> Units with aggregate minimum value of RMB500</p> <p><b>Class T RMB (accumulation) &amp; Class T RMB (distribution):</b> Units with aggregate minimum value of RMB10,000</p> <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> Units with aggregate minimum value of HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b><br/>Units with aggregate minimum value of USD100</p> <p><b>Class A USD Hedged (accumulation) &amp; Class A USD Hedged (distribution):</b> Units with aggregate minimum value of USD100</p> <p><b>Class T USD (accumulation) &amp; Class T USD (distribution):</b><br/>Units with aggregate minimum value of USD1,000</p> <p><b>Class I RMB (accumulation) &amp; Class I RMB (distribution):</b><br/>Units with aggregate minimum value of RMB1,000,000</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b><br/>Units with aggregate minimum value of HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b><br/>Units with aggregate minimum value of USD100,000</p> <p><b>Class I USD Hedged (accumulation) &amp; Class I USD Hedged (distribution):</b> Units with aggregate minimum value</p> |

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|  | of USD100,000 |
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## Fees

### *Fees payable by investors*

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Preliminary Charge<br>(% of Issue Price)     | Up to 3%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Redemption Charge<br>(% of Redemption Price) | <b>Class A RMB (accumulation), Class A HKD (accumulation), Class A USD (accumulation), Class T RMB (accumulation), Class T USD (accumulation), Class A RMB (distribution), Class A HKD (distribution), Class A USD (distribution), Class A USD Hedged (accumulation), Class A USD Hedged (distribution), Class T RMB (distribution), Class T USD (distribution): nil</b><br><b>Class I RMB (accumulation), Class I HKD (accumulation), Class I USD (accumulation), Class I RMB (distribution), Class I HKD (distribution), Class I USD (distribution), Class I USD Hedged (accumulation), Class I USD Hedged (distribution): up to 0.15% if redemption takes place within 6 months of the issue of the relevant Units</b> |
| Switching Charge                             | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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### *Fees payable by the Sub-Fund*

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management Fee<br>(% Net Asset Value of the Sub-Fund) | <b>Class A RMB (accumulation), Class A HKD (accumulation), Class A USD (accumulation), Class A USD Hedged (accumulation), Class A RMB (distribution), Class A HKD (distribution), Class A USD (distribution), Class A USD Hedged (distribution): 1.0% p.a.</b><br><b>Class T RMB (accumulation), Class T USD (accumulation), Class T RMB (distribution), Class T USD (distribution): 1.5% p.a.</b><br><b>Class I RMB (accumulation), Class I HKD (accumulation), Class I USD (accumulation), Class I USD Hedged (accumulation), Class I RMB (distribution), Class I HKD (distribution), Class I USD (distribution), Class I USD Hedged (distribution): 0.5% p.a.</b> |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                                    |                                                                                                                     |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Trustee Fee<br>(% Net Asset Value of the Sub-Fund) | Up to 1% p.a., current rate being 0.11% p.a., subject to a minimum monthly fee of RMB13,000 for each class of Units |
| Custody Fee<br>(% Net Asset Value of the Sub-Fund) | Up to 0.5% p.a. (excluding transaction charges)                                                                     |

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### **Establishment Costs**

The costs of establishment of the E Fund Investment Fund Series and the E Fund (HK) RMB Fixed Income Fund (initial Sub-Fund) have been described in the main part of the Explanatory Memorandum.

### **Dealing Day**

Each HK & PRC Business Day shall be a Dealing Day.

### **Dealing Deadline**

4:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

### **Subscription, Redemption and Switching of Units**

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes”.

No conversion into currency other than RMB may be made with respect to subscription and redemption of Units. No switching may be made between Units denominated in RMB and Units denominated in another currency.

### **Distributions**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends.

There is no dividend distribution for accumulation Classes of Units.

It is currently intended that distributions will be made as set out in the following table and payable in RMB or in the class currency of the relevant class of Units:

| <b><u>Class</u></b>                                                                                                                                                                                                                                        | <b><u>Intended distribution frequency</u></b>                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Class A HKD (distribution)<br>Class A RMB (distribution)<br>Class A USD (distribution)<br>Class A USD Hedged (distribution)<br>Class I HKD (distribution)<br>Class I RMB (distribution)<br>Class I USD (distribution)<br>Class I USD Hedged (distribution) | On a semi-annual basis (i.e. June and December each year, if applicable) |
| Class T RMB (distribution)<br>Class T USD (distribution)                                                                                                                                                                                                   | On a monthly basis (if applicable)                                       |

There is no guarantee of regular distribution and if distribution is made the amount being distributed. Investors should note that dividends, if any, may be paid from income and/or out of capital of the Sub-Fund. If there is a change of the distribution policy of the Sub-Fund, the Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders.

Compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and on the website of the Manager at [www.efunds.com.hk](http://www.efunds.com.hk). Please note that the aforesaid website has not been reviewed by the SFC. Please refer to the "Distribution out of capital" sub-section in the section headed "Risk Factors" for details of the risks associated with distribution of dividends out of capital.

## **Valuation**

The Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.

## **Documents Available for Inspection**

Please refer to the section headed "Documents Available for Inspection" in the main part of the Explanatory Memorandum and the following are the material contracts in respect of this Sub-Fund:

- (i) the RQFII Custodian Agreement between the Manager and the RQFII Custodian; and
- (ii) the Participation Agreement between the Manager, the Trustee and the RQFII Custodian.

## APPENDIX II - E Fund (HK) Greater China US Dollar Bond Fund

### Initial Offer

The following classes of Units set out in the table below are initially being offered at the respective initial offer prices (exclusive of preliminary charge) from 9:00 a.m. (Hong Kong time) on 26 January 2023 to 4:00 p.m. (Hong Kong time) on 31 January 2023 (the “**Initial Offer Period**”) unless extended by the Manager or such other dates as the Manager may determine.

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| <u>Class</u>                             | <u>Initial Offer Price per Unit</u> |
|------------------------------------------|-------------------------------------|
| <b>Class A HKD (accumulation)</b>        | HKD10                               |
| <b>Class A USD (accumulation)</b>        | USD1                                |
| <b>Class A hedged RMB (accumulation)</b> | RMB10                               |
| <b>Class A HKD (distribution)</b>        | HKD10                               |
| <b>Class A USD (distribution)</b>        | USD1                                |
| <b>Class A hedged RMB (distribution)</b> | RMB10                               |
| <b>Class I HKD (accumulation)</b>        | HKD10                               |
| <b>Class I USD (accumulation)</b>        | USD1                                |
| <b>Class I hedged RMB (accumulation)</b> | RMB10                               |
| <b>Class I HKD (distribution)</b>        | HKD10                               |
| <b>Class I USD (distribution)</b>        | USD1                                |
| <b>Class I hedged RMB (distribution)</b> | RMB10                               |

The Manager is entitled to charge a preliminary charge of up to 3% of the initial offer price.

### Application Moneys / Redemption Proceeds

Applicants for Units should note that application moneys for this Sub-Fund must be paid in the currency of the relevant Class. Where Unitholders redeem their Units, redemption proceeds will be paid to the relevant Unitholders in the currency of the relevant Class.

### Issue Price / Redemption Price

Notwithstanding the rounding arrangement disclosed in the sections headed “Purchase of Units” and “Redemption of Units”, the Issue Price and Redemption Price of the Sub-Fund on any Dealing Day will be rounded down to 4 decimal places.

### **Base Currency**

The base currency of the Sub-Fund is USD.

### **Investment Objective and Policy**

E Fund (HK) Greater China US Dollar Bond Fund aims to provide capital appreciation for investors.

#### Debt securities in general

The Sub-Fund aims to achieve its investment objective by investing not less than 70% of its Net Asset Value in a portfolio of USD denominated offshore debt securities issued or traded in Hong Kong and/or Singapore and/or other recognized debt securities markets. These debt securities are issued by or fully guaranteed by:

- (i) listed or unlisted corporations which have their main operations (or majority of assets) in, or have their majority of their income derived from Greater China (comprising the PRC, Hong Kong, Macau and Taiwan), or
- (ii) governments and/or government related entities in Greater China; and where the Manager believes such debt securities are being traded at significant discount to their underlying intrinsic values;

and such debt securities shall be further limited to those:

- (a) issued by or fully guaranteed by PRC state-owned enterprises (including local state-owned enterprises, central state-owned enterprises and local government financing platform) and/or listed or unlisted PRC-related financial institutions, or
- (b) supported by standby letter(s) of credit that are provided by PRC commercial banks (each a “**SBLC Bank**”)

For the avoidance of doubt, the issuers of the debt securities who have a majority of their income derived from Greater China as mentioned in (i) above may be based in or outside Greater China. The Sub-Fund's investment in a single debt security will not exceed 5% of the Sub-Fund's Net Asset Value. The Sub-Fund will not invest more than 30% of its Net Asset Value in "Dim Sum" bonds (i.e. bonds issued outside China but denominated in RMB). The Sub-Fund will not have any onshore China exposure. The Sub-Fund will not invest in debt instruments with loss-absorption features (such as contingent convertible bonds, and Additional Tier 1 and Tier 2 bonds) which are subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s), perpetual bonds, Additional Tier 1 bonds, convertible bonds, exchangeable bonds, real estate companies, stocks, warrants and other equity securities. The Sub-Fund will also exclude industries involved in the production of the following: coal, steel, cement, non-ferrous metals, chemicals, ship-building, textiles and clothing, photovoltaics, paper-making and flat glass. For the avoidance of doubt, the aforementioned real estate companies and industries do not include Mainland local government financing vehicles in the offshore bond markets.

The debt securities in which the Sub-Fund may invest shall include, but are not limited to, non-convertible bonds, fixed and floating rate bonds and high-yield bonds. The Sub-Fund may invest up to 100% of its Net Asset Value in urban investment bonds through offshore bond markets. Urban investment bonds are debt instruments issued by Mainland local government financing vehicles ("**LGFVs**") in the offshore bond markets. These LGFVs are separate legal entities established by local governments and / or their affiliates to raise financing for public welfare investment or infrastructure projects. However, the Sub-Fund will not invest in urban investment bonds issued or guaranteed by LGFVs in any of the following cities/regions in Mainland China: Tianjin, Jilin, Liaoning, Heilongjiang, Inner Mongolia, Qinghai, Yunnan, Guizhou, Henan, Gansu, Ningxia, Xinjiang, Hainan and Tibet ("**Excluded Areas**").

The Sub-Fund may invest in debt securities rated at least Ba1 by Moody's, BB+ by Standard & Poor's or BB+ by Fitch Ratings. In the case of a PRC issuer or guarantor, the Manager will select securities with a minimum credit rating of at least AA+ or above assigned by a PRC local credit rating agency. For a debt security which itself does not have a credit rating, the Manager will assess the debt security by reference to the credit rating of the issuer or the guarantor. Subject to the above credit rating requirements, the aggregate investment in below investment grade securities and/or unrated securities will be limited to less than 30% of the Sub-Fund's Net Asset Value, and the Sub-Fund will not invest more than 5% of its Net Asset

Value in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated.

"Investment grade" refers to at least Baa3 by Moody's or BBB- by Standard & Poor's or Fitch Ratings. In the limited case of a PRC issuer / guarantor, the Manager will generally select securities with a minimum credit rating of at least AA+ or above assigned by a PRC local credit rating agency. "Unrated" refers neither the bond itself nor its issuer has a credit rating. In the case of a split-rated security, the highest credit rating of Moody's, Standard & Poor's or Fitch Ratings will generally apply, or in the case of a PRC issuer / guarantor whose only credit ratings are those assigned by PRC local credit rating agencies, the highest credit rating of such PRC local credit agencies will generally apply.

The Manager will also conduct its own assessment of the credit risks of the debt securities on an ongoing basis based on quantitative and qualitative fundamentals, including but not limited to the leverage, operating margin, return on capital, interest coverage, operating cash flows, industry outlook, the competitive position and corporate governance etc. of the issuer / guarantor to ensure that the debt securities in which the Sub-Fund invests is of sound credit quality.

In the event the credit ratings of a security comprising the Sub-Fund's portfolio are downgraded to below the above credit rating requirements or unrated, the Sub-Fund may continue to hold or divest from such instruments but will not make any additional investment of such instruments.

The Sub-Fund will invest in a broadly diversified portfolio of debt securities with no fixed duration, term structure or industry sector weightings in the allocation of assets in Greater China. Selection of investments will be determined by the availability of attractive investment opportunities. It is intended that the weighted average duration of the portfolio of the Sub-Fund will be kept within 3 years.

#### Financial derivative instruments and other investments

The Sub-Fund may also invest in units in any unit trust or shares in any mutual fund corporation or any other collective investment scheme (including those managed by the Manager or its connected persons) authorised by the SFC or in recognized jurisdiction schemes, and/or financial bonds issued by banks or securities firms, and/or securities issued and/or guaranteed by the following sovereign countries/regions (including their governments, public or local authorities): PRC, Hong Kong, Macau, United States, Canada, France, Germany, Japan, United Kingdom, Italy, in order to achieve their investment objectives, subject to the above credit rating requirements, and may hold cash, deposits, and other money

market instruments (such as but not limited to treasury bills, commercial papers, certificates of deposit as considered appropriate by the Manager). The Sub-Fund will not invest more than 30% of its Net Asset Value in such instruments/investments. The Sub-Fund may invest in derivatives (including but not limited to swaps, futures and deliverable and non-deliverable forwards) for hedging purposes only. The Sub-Fund will not invest in any derivative instruments for investment purpose. The Sub-Fund will not invest in collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers). The Manager will not enter into any securities lending, sale and repurchase or reverse repurchase transactions or other securities financing transactions in respect of the Sub-Fund.

### **Investment Strategy**

The Manager seeks to achieve long term capital growth mainly through the active management of USD denominated offshore debt securities issued or traded in the Hong Kong and/or Singapore and/or other recognized debt securities markets.

### **Investment and Borrowing Restrictions**

The Manager may borrow up to 10% of the latest available Net Asset Value of the Sub-Fund to acquire investments, to redeem Units or to pay expenses relating to the Sub-Fund.

The Sub-Fund is subject to the investment and borrowing restrictions as set out in the Explanatory Memorandum under the heading “***Investment and Borrowing Restrictions***” and Schedule 1.

### **Use of Derivatives**

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

### **Securities Financing Transactions**

The Manager currently does not intend to enter into any securities lending, sale and repurchase or reverse repurchase transactions or other securities financing transactions in respect of the Sub-Fund.

### **Specific Risk Factors**

In addition to the specific risks of investing in the Sub-Fund mentioned, investors should also refer to the relevant risks under the section headed “Risk Factors” in the Explanatory Memorandum according to the nature of the Sub-Fund. Investors should note that the risk factors as mentioned in the Explanatory Memorandum and this Appendix are general risks associated with investments in the Sub-Fund and investors should consider the information provided in these documents before investing in the Sub-Fund.

**The Net Asset Value per Unit may fall or rise. There can be no assurance that an investor will achieve any return on an investment in the Units or a return on the capital invested. Investors should not invest in the Sub-Fund unless they fully understand and are willing to take the various risks associated with the Sub-Fund’s underlying investments (which may expose the Sub-Fund to significant losses in terms of income as well as principal), and have the financial resources necessary to bear the substantial, or even total, loss of the capital invested.**

**Investors should note that the decision whether or not to invest remains with them. If investors have any doubt as to whether or not the Sub-Fund is suitable for them, they should obtain independent professional financial advice.**

In addition, investors should avoid excessive investment in any single type of investments (in terms of its proportion in the overall investment portfolio), including any proposed investment in the Sub-Fund, so as to avoid the investment portfolio being over-exposed to any particular investment risk.

***Investment risk*** - The Sub-Fund mainly invests in debt securities and these instruments may fall in value due to any of the risk factors below. 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 debt securities. There is also no guarantee of dividend or distribution payments during the period an investor holds Units in the Sub-Fund.

***Risk associated with investment in Greater China*** - The Sub-Fund primarily invests in the debt securities issued by or guaranteed by corporations with majority income derived from Greater China and government entities in Greater China, and may be adversely affected by negative conditions in any of such markets. The Sub-Fund may be adversely affected by or depend heavily on the performance of the relevant countries, or regions. Investors should also be aware that the Sub-Fund is likely to be more volatile than a broad-based fund, such as a global or regional equity or bond fund (which generally have a more diverse portfolio of

investments), as it is more susceptible to fluctuations in value resulting from adverse conditions in its respective countries/regions.

The value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Greater China markets.

**China market risk** – Insofar as the Sub-Fund invests substantially in securities related to the China market, it will be subject to risks inherent in the China market. Please refer to the risk factor headed “China market risk” in the main part of the Explanatory Memorandum.

**Emerging markets risk** – The Sub-Fund may invest in or have exposure to debt securities of companies in Greater China which comprises countries/regions generally considered as emerging markets. The Sub-Fund invests in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. For further details, please refer to the risk factor headed “Emerging markets risk” in the main part of the Explanatory Memorandum.

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

**Risks associated with urban investment bonds** – Urban investment bonds are issued by local government financing vehicles, such bonds are typically not guaranteed by local governments or the central government of the Mainland. In the event that the LGFVs default on payment of principal or interest of the urban investment bonds, the Sub-Fund could suffer substantial loss and the Net Asset Value of the Sub-Fund could be adversely affected.

**Foreign exchange risk** – Because the Sub-Fund's assets and liabilities and/or the value of a class of Units may be denominated in currencies different from the Sub-Fund's base currency, the Net Asset Value of the Sub-Fund may be affected unfavourably by exchange control regulations or changes in the exchange rates between the Sub-Fund's base currency and these

currencies. Please refer to the risk factor headed “Currency risk” under the section headed “Risk Factors” in the main part of the Explanatory Memorandum for details.

***Renminbi currency risk and RMB denominated classes risk*** – RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Chinese government. If such policies change in future, the Sub-Fund’s or the investors’ position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors’ investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency.

The Sub-Fund offers RMB denominated classes of Units.

Where an investor subscribes for Units denominated in RMB, the Manager may (where appropriate) convert such subscriptions into a non-RMB currency prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager will sell the Sub-Fund’s investments (which may be denominated in a non-RMB currency) and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread.

Currency conversion is also subject to the Sub-Fund’s ability to convert the proceeds into RMB which may also affect the Sub-Fund’s ability to meet redemption requests from Unitholders in RMB denominated classes of Units or to make distributions, and may delay the payment of redemption proceeds and/or dividends in RMB under exceptional circumstances. As RMB is not freely convertible and is subject to exchange controls and restrictions, currency conversion is subject to availability of RMB at the relevant time. The Sub-Fund may not have sufficient RMB for its investments. Further, in case of sizeable redemption requests for the RMB classes, the Manager has the absolute discretion to delay any payment in respect of redemption of the RMB classes (for a period not exceeding one calendar month of receipt of a properly documented redemption request).

Non-RMB based investors who invest in RMB denominated classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors’ base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors’ investment in the RMB denominated classes of Units.

The RMB is traded in both the onshore and offshore markets. While both onshore RMB (“CNY”) and offshore RMB (“CNH”) represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors. When calculating the Net Asset Value of Units of a RMB denominated class, the Manager will apply the exchange rate for offshore RMB market in Hong Kong, i.e. the CNH exchange rate, which may be at a premium or discount to the exchange rate for onshore RMB market in mainland China, i.e. the CNY exchange rate. Consequently, there may be significant trading costs incurred and investors investing in classes of Units denominated in RMB may suffer losses.

***Hedged RMB denominated classes risk*** - For hedged RMB denominated classes, investors have to bear the associated hedging costs which may be significant depending on prevailing market conditions. If the counterparties of the instruments used for hedging purpose default, investors of the hedged RMB denominated classes may be exposed to RMB currency exchange risk on an unhedged basis and in which case investors may be subject to the risks of investing in RMB denominated classes on an unhedged basis. Also there is no guarantee that the hedging strategy will fully and effectively eliminate the currency exposure.

Hedged RMB denominated classes will hedge the Sub-Fund’s base currency back to RMB, on a best effort basis, with an objective to align the performance of the hedged RMB denominated classes to that of the equivalent class denominated in the Sub-Fund’s base currency. This strategy may preclude the hedged RMB denominated classes from benefiting from any potential gain resulting from the appreciation of the base currency against RMB. Please refer to the risk factor headed “Hedging risk” in the main part of the Explanatory Memorandum for further details.

***Credit risk of issuers / counterparties*** – Investment in debt securities is subject to the counterparty risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. Some of the debt securities that the Sub-Fund invests may be unrated. In general, debt securities that are below investment grade or that are unrated will be more susceptible to the credit risk of the issuers. Please refer to the risk factor headed “Below investment grade and unrated securities risk” below. In the event of a default or credit rating downgrading of the issuers, 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 such issuers as they may be incorporated outside Hong Kong and subject to foreign laws.

Investors should note the limitations of credit ratings set out under the risk factors headed “Credit rating downgrading risk” in the main part of the Explanatory Memorandum.

Debt securities are generally offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant counterparty. As a result, if the counterparty becomes bankrupt, proceeds from the liquidation of the counterparty’s assets will be paid to holders of the debt securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/default risk of its counterparties as an unsecured creditor.

***Below investment grade, securities with a credit rating below AA+ (assigned by a PRC local credit rating agency) and unrated securities risk*** - The Sub-Fund may invest in securities which are below investment grade, securities with a credit rating below AA+ (assigned by a PRC local credit rating agency) or unrated. Investors should note that such securities would generally be considered to have a higher degree of counterparty risk, credit risk, liquidity risk, volatility risk and greater risk of loss of principal and interest than higher rated lower yielding securities. The ability of the issuer to make timely interest and principal payments will be especially susceptible to uncertainties and adverse changes in its financial conditions. If the issuer of securities defaults, or such securities cannot be realised, or perform badly, investors may suffer substantial losses. Further, the market for these securities may be less active, making it more difficult to sell the securities at a price or time that the Sub-Fund wishes to do so. Valuation of these securities is more difficult. The values of these securities tend to be more volatile and sensitive to individual issuer developments and general economic conditions than the values of higher rated securities. As a result, the Sub-Fund’s prices may be more volatile.

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

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

**Counterparty and settlement risk** – Investment in debt securities will expose the Sub-Fund to counterparty default risks. Exchange traded debt securities may be subject to counterparty risk, although such risk is mitigated by a centralised clearing system. On the other hand, the degree of counterparty risk may be higher in the over-the-counter (OTC) market where deals are negotiated between two counterparties through a trading system. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

**Volatility and Liquidity risk** - The debt securities in the Greater China markets may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations.

The debt securities 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. Even if the debt securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the debt securities until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and the Sub-Fund may suffer losses in trading such securities. The price at which the debt securities 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 spreads of the price of debt securities in which the Sub-Fund invests may be high, and the Sub-Fund may therefore incur significant trading costs and may even suffer losses when selling such investments.

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

The value of debt securities may be affected by changing market conditions or other significant market events affecting valuation. For example, in the event of downgrading of an issuer, the value of the relevant debt securities may decline rapidly.

In particular, the value of below investment grade or unrated corporate bonds is affected by investors' perceptions. When economic conditions appear to be deteriorating, or where an adverse event happens to the issuer, the bond may not be objectively priced and below

investment grade or unrated corporate bonds may decline in market value due to investors' heightened concerns and perceptions over credit quality.

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

***Risks associated with distribution out of capital*** – Distributions may be paid out of capital of the Sub-Fund. The distribution amount and Net Asset Value of a hedged unit class may be adversely affected by differences in the interest rates of the class currency of the relevant hedged unit class and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes. Investors should refer to the risk factor headed "Distribution out of capital" in the main part of the Explanatory Memorandum for details of the risks associated with distribution of dividends out of capital.

***Risk of Investing in Other Funds*** - The Sub-Fund may invest in underlying funds to pursue its investment objective, and those underlying funds may not be regulated by the SFC. Further the Manager does not have control of the investments of the underlying funds and there is no assurance that the investment objective and strategy of the underlying funds will be successfully achieved which may have a negative impact to the Net Asset Value of the Sub-Fund. In addition to the expenses and charges charged by the Sub-Fund, investor should note that there are additional fees involved when investing into these underlying funds, including fees and expenses charged by investment manager of these underlying funds as well as fees payable by the Sub-Fund during its subscription to or redemption from these underlying funds. Furthermore, there can be no assurance that 1) the liquidity of the underlying funds will always be sufficient to meet redemption request as and when made; and 2) investment objective and strategy will be successfully achieved despite the due diligence procedures undertaken by the Manager and the selection and monitoring of the underlying funds. If the Sub-Fund invests in an underlying fund managed by the Manager or Connected Person of the Manager, potential conflict of interest may arise. Please refer to the section headed "Conflicts of Interest" for details under the circumstances.

***Hedging / derivative risk*** – The use of financial derivative instruments may expose the Sub-Fund to additional risks including volatility risk, credit risk, liquidity risk, management risk, valuation risk, counterparty risk and over-the-counter transaction risk. The leverage

element/component of a financial derivative instrument can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund. The Sub-Fund may invest in derivatives and in adverse situations its use of financial derivative instruments for hedging purposes may become ineffective and/or cause the Sub-Fund to suffer significant loss. Please refer to the risk factors headed “Hedging risk” and “Derivative and structured product risk” in the main part of the Explanatory Memorandum.

**Other risks** - Investment in the Sub-Fund is subject to risks that apply to debt securities, including the credit risk of the issuers and interest rate risk. Investors should refer to the relevant risk factor headed "Interest rates risk" in the main part of the Explanatory Memorandum.

## Available Classes

C5

Classes of Units in the Sub-Fund may be either accumulating or distributing.

Class A (accumulation) Units and Class A (distribution) Units are available for sale to the retail public in Hong Kong.

Class I (accumulation) Units and Class I (distribution) Units are offered to institutional investors only.

## Investment Minima

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|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum Subscription Amount | <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> USD100</p> <p><b>Class A hedged RMB (accumulation) &amp; Class A hedged RMB (distribution):</b> RMB500</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b> HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b> USD150,000</p> <p><b>Class I hedged RMB (accumulation) &amp; Class I hedged RMB (distribution):</b> RMB1,000,000</p> |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Minimum Subsequent Subscription Amount | <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> USD100</p> <p><b>Class A hedged RMB (accumulation) &amp; Class A hedged RMB (distribution):</b> RMB500</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b> HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b> USD150,000</p> <p><b>Class I hedged RMB (accumulation) &amp; Class I hedged RMB (distribution):</b> RMB1,000,000</p>                                                                                                                                                                                                                                     |
| Minimum Holding                        | <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> Units with aggregate minimum value of HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> Units with aggregate minimum value of USD100</p> <p><b>Class A hedged RMB (accumulation) &amp; Class A hedged RMB (distribution):</b> Units with aggregate minimum value of RMB500</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b> Units with aggregate minimum value of HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b> Units with aggregate minimum value of USD150,000</p> <p><b>Class I hedged RMB (accumulation) &amp; Class I hedged RMB (distribution):</b> Units with aggregate minimum value of RMB1,000,000</p> |
| Minimum Redemption Amount              | <p><b>Class A HKD (accumulation) &amp; Class A HKD (distribution):</b> Units with aggregate minimum value of HKD500</p> <p><b>Class A USD (accumulation) &amp; Class A USD (distribution):</b> Units with aggregate minimum value of USD100</p> <p><b>Class A hedged RMB (accumulation) &amp; Class A hedged RMB (distribution):</b> Units with aggregate</p>                                                                                                                                                                                                                                                                                                                                                                                                                               |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>minimum value of RMB500</p> <p><b>Class I HKD (accumulation) &amp; Class I HKD (distribution):</b> Units with aggregate minimum value of HKD1,000,000</p> <p><b>Class I USD (accumulation) &amp; Class I USD (distribution):</b> Units with aggregate minimum value of USD150,000</p> <p><b>Class I hedged RMB (accumulation) &amp; Class I hedged RMB (distribution):</b> Units with aggregate minimum value of RMB1,000,000</p> |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Fees

### *Fees payable by investors*

C14(a)

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Preliminary Charge<br>(% of Issue Price)     | <p><b>Class A HKD (accumulation), Class A USD (accumulation), Class A HKD (distribution), Class A USD (distribution), Class A hedged RMB (accumulation) and Class A hedged RMB (distribution):</b> Up to 3%</p> <p><b>Class I HKD (accumulation), Class I USD (accumulation), Class I HKD (distribution), Class I USD (distribution), Class I hedged RMB (accumulation) and Class I hedged RMB (distribution):</b> nil</p> |
| Redemption Charge<br>(% of Redemption Price) | <p><b>Class A HKD (accumulation), Class A USD (accumulation), Class A HKD (distribution), Class A USD (distribution), Class A hedged RMB (accumulation) and Class A hedged RMB (distribution):</b> nil</p> <p><b>Class I HKD (accumulation), Class I USD (accumulation), Class I HKD (distribution), Class I USD (distribution), Class I hedged RMB (accumulation) and Class I hedged RMB (distribution):</b> nil</p>      |
| Switching Charge                             | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                             |

### *Fees payable by the Sub-Fund*

C14(b)

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management Fee<br>(% Net Asset Value of the Sub-Fund) | <b>Class A HKD (accumulation), Class A USD (accumulation), Class A HKD (distribution), Class A USD (distribution), Class A hedged RMB (accumulation) and Class A hedged RMB (distribution): 1.0% p.a.</b><br><b>Class I HKD (accumulation), Class I USD (accumulation), Class I HKD (distribution), Class I USD (distribution), Class I hedged RMB (accumulation) and Class I hedged RMB (distribution): 0.36% p.a.</b> |
| Trustee Fee<br>(% Net Asset Value of the Sub-Fund)    | Up to 1% p.a., current rate being 0.09% p.a., subject to a minimum monthly fee of USD4,000 (or equivalent)                                                                                                                                                                                                                                                                                                              |

### **Establishment Costs**

The costs of establishment of the E Fund (HK) Greater China US Dollar Bond Fund amount to approximately USD100,000 which will be amortised over a period of five Accounting Periods.

### **Dealing Day**

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Each Business Day shall be a Dealing Day.

### **Dealing Deadline**

4:00 p.m. (Hong Kong time) on the relevant Dealing Day. The Authorised Distributor(s) may impose an earlier cut-off time before the Dealing Deadline for receiving instructions for subscriptions, redemptions or switching. Investors should confirm the arrangements with the Authorised Distributor(s) concerned.

### **Subscription, Redemption and Switching of Units**

For details regarding the procedures for subscription, redemption and switching, see the main part of the Explanatory Memorandum under “Purchase of Units”, “Redemption of Units” and “Switching between Classes”.

## **Distributions**

C13

The Manager retains the discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends.

There is no dividend distribution for accumulation Classes of Units.

For distribution Classes of Units, dividends, if declared, will only be paid to holders subject to the Manager's discretion on a monthly basis. There is no guarantee of regular distribution and if distribution is made the amount being distributed. Investors should note that dividends, if any, may be paid from income and/or out of capital of the Sub-Fund. If there is a change of the distribution policy of the Sub-Fund, the Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders.

Compositions of the dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital) for the last 12 months are available by the Manager on request and on the website of the Manager at [www.efunds.com.hk](http://www.efunds.com.hk). Please note that the aforesaid website has not been reviewed by the SFC. Please refer to the "Distribution out of capital" sub-section in the section headed "Risk Factors" for details of the risks associated with distribution of dividends out of capital.

## **Valuation**

C7

The Valuation Day will be the relevant Dealing Day and the Valuation Point is the close of business in the last relevant market to close on each Valuation Day.