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# IMPORTANT

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*If you are in doubt about the content of this Offering Circular, you should seek independent professional financial advice.*

## HSBC CHINA DRAGON FUND

滙豐中國翔龍基金

*(a Hong Kong unit trust authorised under Section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: 820)**

**Manager**

**HSBC Global Asset Management (Hong Kong) Limited**

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**HSBC China Dragon Fund is a close-ended fund and no Unitholders may demand redemption of their Units.**

The Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Prospective investors should carefully consider the risk factors together with all of the other information included in this Offering Circular before deciding whether or not to invest in the Units.

The Units are listed and have been accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Stock Exchange. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second Business Day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

This Offering Circular may be amended or supplemented from time to time. Any such supplement should form part of the Offering Circular and should be read in conjunction with this Offering Circular.

18 December 2020

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## PRELIMINARY

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HSBC China Dragon Fund is a unit trust constituted by the Trust Deed dated 20 June, 2007, as amended, governed by the laws of Hong Kong. The Manager of the Fund is HSBC Global Asset Management (Hong Kong) Limited. All Unitholders are bound by the provisions of the Trust Deed as if they had been a party to the Trust Deed.

The Fund is denominated in Hong Kong dollars until such time as the Manager may with the approval of the Trustee change the currency of denomination of the Fund, provided that in such case the Manager shall notify the Unitholders of the change at least one (1) month prior to the change.

Units are offered on the basis only of the information contained in this Offering Circular. Any information given or representations made by any dealer, salesman or other person and (in either case) not contained herein should be regarded as unauthorised and accordingly must not be relied upon. Neither the delivery of this Offering Circular nor the offer or issue of the Units shall under any circumstances constitute a representation that the information contained in this Offering Circular is correct as of any time subsequent to the date hereof.

The Manager of the Fund accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirm, 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 misleading.

The Fund has been authorised by the SFC under Section 104 of the SFO. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The authorisation is conditional upon, among other things, the Fund remaining listed on the Stock Exchange.

The Units are listed on the Stock Exchange. The Units have been accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Stock Exchange. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second Business Day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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 the Units.

**The Fund is a close-ended fund and no Unitholders may demand redemption of their Units unless otherwise permitted in accordance with the provisions of the Trust Deed. In general, close-ended funds may trade at a discount or at a premium to their Net Asset Value. There is no assurance that the Units will be traded at a price that is equal to the Net Asset Value. As the market price of the Units may be determined by factors such as the Net Asset Value and market supply and demand for the Units, there is a risk that the Units will be traded at a discount to its Net Asset Value after the Listing. In times of market disruption or when there is an insufficient number of buyers and/or sellers of the Units, the bid/ask spread of the market price of the Units may widen significantly.**

### **Personal Data or Confidential Information**

(1) Information (including personal data, confidential information and information necessary to assess tax status) provided by an Unitholder and details of transactions of such Unitholder will be used, shared, stored, processed, transferred and disclosed (in and outside Hong Kong) so that the Manager or a member of the HSBC Holdings Group can carry out its obligations in respect of the Fund or for other purposes including but not limited to (a) providing services to the Unitholder, (b) fulfilling or complying with any applicable statute, law, regulation, ordinance, rule, judgment, decree, voluntary code, directive, sanctions regime, court order, agreement with authorities (“Laws”); any demands from authorities or obligations under Laws; and Laws requiring any member of the HSBC Holdings Group to verify the identity of the Unitholder (“Compliance Obligations”), (c) detecting, investigating and preventing fraud, money laundering, corruption, tax evasion and any other crime or attempts to violate laws and fulfilling related Compliance Obligations, (d) enforcing or defending HSBC Holdings Group’s, or a member of the HSBC Holdings Group’s rights, (e) fulfilling internal operational requirements of the HSBC Holdings Group, (f) maintaining HSBC Holdings Group’s overall relationship with the Unitholder.

(2) Failure to provide information may result in the Manager being unable to provide services to the Unitholder or taking appropriate action or reporting to tax authorities. Information may be shared with other parties including but not limited to entities within the HSBC Holdings Group (provided that such information will be protected by HSBC Holdings Group’s data protection policy).

(3) Unitholder has the right to request access to and correction of any personal data or to request the personal data not to be used for direct marketing purposes.

(4) Collection and use of personal data will be subject to the requirements under the Personal Data (Privacy) Ordinance of Hong Kong.

### **Enquiries and Complaints**

Enquiries and complaints concerning the Fund (including the current Net Asset Value) should be directed to the Manager at (852) 2284 1118 or at Level 22, HSBC Main Building, 1 Queen’s Road Central, Hong Kong. The Manager will respond to any enquiry or complaint as soon as practicable.

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## PARTIES INVOLVED IN THE FUND

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<b>Manager:</b>	HSBC GLOBAL ASSET MANAGEMENT (HONG KONG) LIMITED HSBC Main Building 1 Queen's Road Central Hong Kong
<b>Directors of the Manager:</b>	<i>EXECUTIVE DIRECTORS:</i> BOTELHO BASTOS, Pedro Augusto MALDONADO-CODINA, Guillermo Eduardo TAM, Chun Pong Stephen  <i>NON-EXECUTIVE DIRECTORS:</i> APENBRINK, Rudolf Eduard Walter MARTIN, Kevin Ross
<b>Trustee:</b>	HSBC INSTITUTIONAL TRUST SERVICES (ASIA) LIMITED HSBC Main Building 1 Queen's Road Central Hong Kong
<b>QFI Custodian:</b>	BANK OF COMMUNICATIONS CO., LTD 188, Yin Cheng Zhong Road Shanghai 200120 The People's Republic of China
<b>Registrar:</b>	COMPUTERSHARE HONG KONG INVESTOR SERVICES LIMITED Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Auditors:</b>	KPMG Certified Public Accountants 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
<b>Legal Advisers to the Fund:</b>	<i>As to Hong Kong law:</i> CLIFFORD CHANCE 27 Jardine House 1 Connaught Place Hong Kong  <i>As to PRC law:</i> LLINKS LAW OFFICES 19th Floor, One Lujiazui 68 Yin Cheng Road Middle Shanghai 200120 The People's Republic of China

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## DEFINITIONS

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In this Offering Circular, unless the context requires otherwise, the following expressions shall have the following meanings:

“A Shares”	shares issued by eligible companies that are listed on the PRC Stock Exchanges, traded in RMB and available for investment by domestic (Chinese) investors and holders of QFI licence;
“Auditors”	auditors of the Fund from time to time;
“B Shares”	shares issued by companies incorporated in the PRC and listed on the PRC Stock Exchanges, traded in foreign currencies and available for investment by domestic (Chinese) investors and foreign investors;
“Business Days”	a day (other than a Saturday or Sunday) on which the Stock Exchange is open for normal trading and banks are open for normal banking business in Hong Kong provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which the Stock Exchange and banks in Hong Kong are open for any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise;
“CAAP”	a Chinese A Share access product, being a security (such as a note, warrant, option, participation certificate) linked to A Shares or portfolios of A Shares which aim to replicate synthetically the economic benefit of the relevant A Shares or portfolios of A Shares;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors;
“China” or “PRC”	the People’s Republic of China, but for the purposes of this Offering Circular and the Fund’s investment objective and investment approach only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;
“ChinaClear”	China Securities Depository and Clearing Corporation;

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## DEFINITIONS

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- “CIT Law” Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) promulgated by the NPC on 16 March, 2007, which came into effect on 1 January, 2008 and was amended on 29 December, 2018;
- “Collective Investment Scheme”
- (a) any arrangement made for the purpose, or having the effect, of providing facilities for the participation of persons, as beneficiaries under a trust, in profits or income arising from the acquisition, holding, management or disposal of securities or any other property whatsoever; and
  - (b) any other investment vehicle of a similar nature to that described in paragraph (a) of this definition, including without limiting the generality of the foregoing any other open-ended investment company, limited partnership and mutual fund;  
  
which, in any such case, has in issue units, shares or other interests (howsoever described) which are redeemable at the option of the holder thereof provided that:
    - (i) in the case of any such arrangement or investment vehicle the assets of which are divided into two or more separate portfolios (whether described as portfolios, sub-funds or by any other name) in which an investor may separately invest, each such portfolio shall be deemed to be a separate Collective Investment Scheme; and
    - (ii) in relation to any such Collective Investment Scheme, “unit” means any unit, share or other interest (howsoever described) of similar nature in such Collective Investment Scheme;

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## DEFINITIONS

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“Corporate Communication”	any documents issued or to be issued by the Fund for the information or action of the Unitholders as defined in the definition of “corporate communication” stated in Rule 1.01 of the Listing Rules, including but not limited to:  (i) the annual report; (ii) the interim report; (iii) a notice of meeting; (iv) a listing document; (v) a circular; and (vi) a proxy form;
“CSC”	the China Stock Connect System;
“CSRC”	China Securities Regulatory Commission;
“Enhanced Pre-Trade Checking”	has the meaning set forth on page 38 of this Offering Circular;
“ERISA”	the U.S. Employee Retirement Income Security Act of 1974, as amended;
“Extraordinary Resolution”	a resolution proposed as such and passed by 75% or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting;
“ETF”	an exchange-traded fund;
“Exchange Participants”	the Stock Exchange’s registered exchange participants;
“FIE(s)”	foreign investment enterprise(s) incorporated in the PRC (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign-owned enterprises established in the PRC);
“Fund”	HSBC China Dragon Fund (滙豐中國翔龍基金);
“H Shares”	shares issued by companies incorporated in the PRC and listed on the Stock Exchange and traded in Hong Kong dollars;
“HKSCC”	Hong Kong Securities Clearing Company Limited or its successors;
“HKSCC Nominees”	HKSCC Nominees Limited;



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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollars” or “HK\$”	the lawful currency for the time being and from time to time of Hong Kong;
“HSBC Holdings”	HSBC Holdings plc;
“HSBC Holdings Group”	HSBC Holdings, its subsidiaries and associated companies;
“Investment Delegate”	an entity that has been delegated the investment management function of the Fund;
“Investment Regulations”	means (i) the Measures; (ii) the Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《關於實施《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》有關問題的規定》) promulgated by CSRC on 25 September, 2020 and effective from 1 November, 2020, as may be amended from time to time; (iii) the Provisions on Cash Management for Domestic Securities and Futures Investment by Foreign Institutional Investors (《境外機構投資者境內證券期貨投資資金管理規定》) jointly promulgated by SAFE and PBOC on 7 May, 2020 and effective as of 6 June, 2020; and other applicable implementing rules issued and amended by ChinaClear, the PRC Stock Exchanges and other competent organisations from time to time;
“Listing”	the listing of the Units on the Stock Exchange;
“Listing Date”	20 July, 2007, the date on which the Units were first listed and from which dealings therein were permitted to take place on the Stock Exchange;
“Manager”	HSBC Global Asset Management (Hong Kong) Limited;
“Measures”	the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (

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《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》) promulgated by CSRC, PBOC and SAFE on 25 September, 2020 and effective from 1 November, 2020, as may be amended from time to time;

“MOF”	Ministry of Finance;
“Net Asset Value”	the net asset value of the Fund or, as the context may require, the net asset value of a Unit, calculated pursuant to the Trust Deed;
“Non-eligible Investor”	any person by whose holding of Units (whether directly or beneficially) would: <ul style="list-style-type: none"><li>(i) be in breach of any law or requirements of any country, any governmental authority or any stock exchange on which such Units are listed;</li><li>(ii) cause the assets of the Fund to become “plan assets” within the meaning of ERISA; or</li><li>(iii) in the opinion of the Manager, result in the Fund incurring any liability to taxation or suffering any other pecuniary disadvantage which the Fund might not otherwise have incurred or suffered (in circumstances whether directly or indirectly affecting such person and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant);</li></ul>
“Northbound Trading”	has the meaning set forth on page 14 of this Offering Circular;
“NPC”	the National People’s Congress of the PRC;
“Offering Circular”	this offering circular issued in connection with the Units;
“PBOC”	People’s Bank of China;
“PRC Stock Exchanges”	SSE and SZSE;
“QFI”	qualified foreign institutional investor (“ <b>QFII</b> ”) and RMB qualified foreign institutional investor (“ <b>RQFII</b> ”) approved by CSRC pursuant to the Measures. The QFII program and RQFII

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## DEFINITIONS

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	program have been merged into a combined scheme for qualified foreign investor (“ <b>QFI</b> ”) from 1 November, 2020;
“QFI Custodian”	Bank of Communications Co., Ltd., a joint stock company incorporated in the PRC with limited liability and 19.03% ultimately owned by HSBC Holdings;
“QFI Permitted Financial Instruments”	includes the following instruments: <ul style="list-style-type: none"><li>(a) A Shares;</li><li>(b) depository receipts, bonds, bond repurchases traded or transferred on the PRC Stock Exchanges;</li><li>(c) shares and other type of securities admitted on the National Equities Exchange and Quotations;</li><li>(d) cash bonds and derivatives on bonds, interest rates and foreign exchange traded on China’s inter-bank bond market;</li><li>(e) public securities investment funds;</li><li>(f) financial futures contracts listed and traded on China Financial Futures Exchange;</li><li>(g) commodity futures contracts listed and traded on CSRC approved futures exchanges;</li><li>(h) options listed and traded on exchanges with approval of the State Council or CSRC;</li><li>(i) foreign exchange derivatives traded for hedging purposes as approved by SAFE;</li><li>(j) private investment funds whose investment scope does not extend beyond the permitted investment scope of QFIs; and</li><li>(k) other financial instruments as approved by CSRC;</li></ul>
“Recurring Redemption Offer”	has the meaning ascribed to it in the section headed “Redemption and Trading of Units”;

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## DEFINITIONS

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“Red Chip Companies”	companies incorporated outside the PRC and listed on the Stock Exchange and controlled by PRC entities, by way of direct or indirect shareholding and/or representation on the board of directors;
“Registrar”	Computershare Hong Kong Investor Services Limited;
“Research Adviser”	HSBC Jintrust Fund Management Company Limited, a company incorporated in the PRC and is 49% ultimately owned by HSBC Holdings;
“Reverse Repurchase Transactions”	transactions whereby the 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;
“RMB”	Renminbi Yuan, the lawful currency for the time being and from time to time of the PRC;
“SAFE”	State Administration of Foreign Exchange;
“STA”	State Taxation Administration (previously known as “State Administration of Taxation”);
“Sale and Repurchase Transactions”	transactions whereby the 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;
“Securities”	<p>any share, stock, debenture, loan stock, bond, unit share or other interest in any Collective Investment Schemes, Commodity (as defined in the Trust Deed), share price index futures contract, security, commercial paper, acceptance, trade bill, treasury bill, currency, instrument or note of or issued by or under the guarantee of any body, whether incorporated or unincorporated, or of any government or local governmental authority or supranational body, whether paying interest or dividends or not, and whether fully paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):</p> <p>(i) any right, option or interest (howsoever described) in or in respect of any of the foregoing;</p>

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	(ii) any certificate of interest or participation in, or temporary or interim certificate for, receipt for or warrant to subscribe or purchase, any of the foregoing;
	(iii) any instrument commonly known or recognised as a security;
	(iv) any receipt or other certificate or document evidencing the deposit of a sum of money, or any rights or interests arising under any such receipt, certificate or document;
	(v) any bill of exchange and any promissory note;
	(vi) any mortgage-backed security or other securitised receivable; and
	(vii) any right, option or interest (howsoever described) in or in respect of any index or indices comprised of any of the foregoing;
“Securities Lending Transactions”	transactions whereby the Fund lends its securities to a security-borrowing counterparty for an agreed fee;
“SFC”	the Securities and Futures Commission in Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“SPSA Order”	has the meaning set forth on page 38 of this Offering Circular;
“SSE”	Shanghai Stock Exchange;
“SSE Shares”	the eligible A Shares listed on SSE;
“Stock Connect”	Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and any other similar stock connect programme between another city of the PRC and Hong Kong when it becomes available to and can be utilised by the Fund;
“Stock Connect Market”	SSE or SZSE, as the case may be;

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## DEFINITIONS

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“Stock Connect Securities”	securities acquired through Stock Connect;
“Stock Connect Investor”	any Hong Kong and overseas investor investing through Stock Connect including, without limitation, the Fund;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Substantial Financial Institution”	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of the 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;
“SZSE”	Shenzhen Stock Exchange;
“SZSE Shares”	the eligible A Shares listed on SZSE;
“Trust Deed”	a trust deed dated 20 June, 2007 entered into between the Manager and the Trustee, as amended or supplemented from time to time;
“Trustee”	HSBC Institutional Trust Services (Asia) Limited;
“United States dollars” or “US\$”	the lawful currency for the time being and from time to time of the United States of America;
“Unitholder(s)”	holder(s) of Units;
“Units”	units in the Fund;
“Valuation Day”	each Business Day and/or such other day or days in addition thereto or in substitution therefore as may from time to time be determined by the Manager with the consent of the Trustee provided that not less than one (1) calendar month’s prior notice shall have been given to the Unitholders before any change in the Manager’s determination shall become effective;
“Valuation Point”	close of business in the last relevant market to close or such other time as the Manager and the Trustee may agree from time to time on each Valuation Day on which the Net Asset Value of the Fund and of a Unit falls to be calculated.

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## DEFINITIONS

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Unless otherwise specified, for the purposes of this Offering Circular, amounts dominated in US\$ are translated into HK\$ as follows:

$$\text{HK\$7.80} = \text{US\$1.00}$$

These exchange rates are for the purposes of illustration only and no representation is made that any amounts in US\$ or HK\$ have been or could be converted at the above rates or any other rates or at all.

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## INVESTMENT OBJECTIVES AND POLICIES

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The investment objective of the Fund is to achieve long-term capital growth by investing primarily in A Shares directly through (i) the QFI licence of the Manager and (ii) Stock Connect; and indirectly through investment of (i) up to 40% of its Net Asset Value in financial derivative instruments and securities linked to A Shares (such as CAAPs (including A Share participation certificates/notes and/or other access products issued by third party investment banks or brokers)) and (ii) up to 40% of its Net Asset Value in ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares; provided that the Fund's investment in CAAPs and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares will not exceed 50% in the aggregate of its Net Asset Value. The Manager may consider, amongst others, profitability, prospect, outlook, valuation and volatility of the relevant securities and markets, the availability of the investments, and the economic and political environment and development affecting the relevant securities and markets in its selection criteria of investments for the Fund.

The Fund will not invest more than 10% of its Net Asset Value in CAAPs issued by a single issuer; and the Fund's aggregate investment in (i) CAAPs shall not be more than 40% of its Net Asset Value and (ii) A Shares through the Stock Connect shall not be more than 30% of the Fund's Net Asset Value.

There is no guarantee on the availability of the quantity of A Shares and financial derivative instruments and securities linked to A Shares that are appropriate for the Fund. In the event that such A Share investments are not available, the Fund may also invest up to 10% of its Net Asset Value in other permissible investments or securities that are permitted under the Trust Deed, including but not limited to B Shares, H shares, shares issued by red chip companies and other QFI Permitted Financial Instruments in the PRC.

As of the date of this Offering Circular, only the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect have been launched. No other Stock Connect programme has been launched, but the Fund may invest through such programme in future, as and when it is available. Stock Connect is a securities trading and clearing linked programme developed by, among others, the Stock Exchange, SSE/SZSE, HKSCC and ChinaClear with an aim to achieve mutual stock market access between mainland China and Hong Kong. Stock Connect provide a "northbound link" through which Stock Connect Investors may purchase and indirectly hold SSE and SZSE Shares ("**Northbound Trading**").

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

The Fund may also invest in cash and cash equivalents on an ancillary basis.

Other than CAAPs, the Fund will not invest in or use financial derivative instruments other than for hedging purposes only.

The Fund's assets will be actively managed by the Manager to invest where it considers will enable the Fund to achieve its investment objective. There is no guarantee that the Fund's investment objective will be achieved based on the investments selected.

Any change to the investment objectives and/or policies of the Fund must be approved by an Extraordinary Resolution passed by the Unitholders in a general meeting of the Unitholders.



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## INVESTMENT AND BORROWING RESTRICTIONS

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### INVESTMENT RESTRICTIONS

The Fund will be subject to the following principal investment restrictions:

- (i) not more than 10% of the Net Asset Value of the Fund in aggregate may consist of investments in or exposure to, any single entity through the following (other than Government and other public securities<sup>1</sup>):
  - (a) investments in securities issued by that entity;
  - (b) exposure to that entity through underlying assets of financial derivative instruments; and
  - (c) net counterparty exposure to that entity arising from transactions of over-the-counter financial derivative instruments<sup>2</sup>;
- (iA) subject to paragraph (i) above, not more than 20% of the Net Asset Value of the Fund in aggregate may consist of investments in, or exposure to, entities within the same group<sup>3</sup> through the following:
  - (a) investments in securities issued by those entities;
  - (b) exposure to those entities through underlying assets of financial derivative instruments; and
  - (c) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments<sup>2</sup>;
- (iB) the Value of the Fund's cash deposits made with the same entity or entities within the same group<sup>3</sup> may not exceed 20% of the Net Asset Value, except where (a) cash proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interests of Unitholders; or (b) cash proceeds received from subscriptions pending investments and cash held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions be unduly burdensome and the cash deposits arrangement would not compromise Unitholders' interests;

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<sup>1</sup> Any investment issued by, or the payment of principal and interest on, which is guaranteed by a government or any fixed interest investment issued by its public or local authorities or other multilateral agencies.

<sup>2</sup> For the purpose of sub-paragraphs (i)(c) and (iA)(c), "financial derivative instruments" excludes such instruments transacted on an exchange where the clearing house performs a central counterparty role and marked-to-market daily in the valuation of their financial derivative instrument positions and subject to margining requirements at least on a daily basis.

<sup>3</sup> For the purpose of sub-paragraphs (iA) and (iB), entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards are generally regarded as "entities within the same group".

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## INVESTMENT AND BORROWING RESTRICTIONS

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- (ii) the Fund's holding of ordinary shares of a single class in any entity (other than Government and other public securities) may not exceed 10% of the nominal amount of the ordinary shares of the same class in issue;
- (iii) not more than 15% of the Net Asset Value of the Fund may consist of securities and other financial products or instruments not listed or quoted on a market (including but not limited to stock exchange and over-the-counter market);
- (iv) notwithstanding the restrictions contained in paragraphs (i), (iA) and (ii), not more than 30% of the Net Asset Value of the Fund may consist of Government and other public securities of a single issue;
- (v) subject to the restrictions contained in paragraph (iv), the Fund may be fully invested in Government and other public securities issued by a single issuer provided that it holds Government and other public securities of at least six different issues. Government and other public securities would 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;
- (vi) [deleted];
- (vii) 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, the Fund may not invest in physical commodities, except it may invest in financial derivative instruments where the underlying assets consists of highly liquid physical commodities (including gold, silver, platinum and crude oil) subject to the requirements and restrictions under the section "Financial Derivatives Instruments" below;
- (viii) not more than 10% of the Net Asset Value of the Fund may consist of shares or units in other open ended unit trusts or mutual funds which are non-eligible schemes and not authorised by the SFC.

The Fund may invest in one or more underlying schemes which are either eligible schemes (as permitted pursuant to the SFC's Code on Unit Trusts and Mutual Funds) or schemes authorised by the SFC. The value of the Fund's investments in units or shares in each such underlying scheme may not exceed 30% of its total Net Asset Value, unless the underlying scheme is authorised by the SFC, and the name and key investment information of the underlying scheme are disclosed in this Offering Circular.

In addition, each such underlying scheme's objective may not be to invest primarily in any investment prohibited by Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds, and where such scheme's objective is to invest primarily in investments restricted by such chapter, such investments may not be in contravention of the relevant limitation.

For the avoidance of doubt, the Fund may invest in underlying scheme(s) authorised by the Commission under Chapter 8 of the SFC's Code on Unit Trusts and Mutual Funds (except for hedge funds under paragraph 8.7 of the SFC's Code on Unit Trusts and Mutual Funds), eligible scheme(s) of which the net derivative exposure does not exceed 100% of its total net asset value, and exchange traded funds that satisfy the requirements under the SFC's Code on Unit Trusts and Mutual Funds. The underlying

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## INVESTMENT AND BORROWING RESTRICTIONS

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scheme's objective may not be to invest primarily in other Collective Investment Scheme(s).

Where the Fund invests in any underlying scheme(s) managed by the Manager or its connected persons, all initial charges and redemption charges on the underlying scheme(s) must be waived.

The Manager or any person acting on behalf of the 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; and

- (ix) not more than 10% of the Net Asset Value of the Fund may be invested in securities issued by or guaranteed by any single country with a credit rating below investment grade. For the avoidance of doubt, a "single country" shall include a country, its government, a public or local authority or nationalised industry of that country.

For the purposes of (i) and (iA) above, the Fund's value of collateral and cash collateral to be reinvested and net single counterparty exposure to the guarantor should be taken into account in compliance with the relevant investment restriction.

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

- a) ETFs that are listed and regularly traded on recognized stock exchanges open to the public (nominal listing not accepted); and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements as stipulated under Chapter 8.6 of the SFC's Code on Unit Trusts and Mutual Funds, or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the SFC's Code on Unit Trusts and Mutual Funds; and/or
- b) all ETFs authorised by the SFC.

In addition, the Manager shall not on behalf of the Fund:

- (i) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or the directors and officers of the Manager collectively own more than 5% of those securities;
- (ii) invest in any type of real estate (including buildings) or interests in real estate (including options or rights but excluding shares in real estate companies and interests in real estate investment trusts ("REITs") that are listed on a stock exchange):
  - I. where investments are made in listed REITs, investment restrictions (i), (iA) and (ii) above shall be observed; and
  - II. where investments are made in unlisted REITs, investment restrictions (iii) and (viii) above shall be observed;

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## **INVESTMENT AND BORROWING RESTRICTIONS**

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- (iii) make short sales if as a consequence the liability of the Fund to deliver securities would exceed 10% of the Net Asset Value of the Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted) or which do not accord with all applicable laws and regulations;
- (iiiA) carry out any naked or uncovered short sale of securities;
- (iv) [deleted]
- (v) [deleted]
- (vi) make a loan out of the Fund except to the extent that the acquisition of an investment or the making of a deposit might constitute a loan;
- (vii) subject to investment restriction (iii) above, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person in respect of borrowed money;
- (viii) acquire any asset or engage in any transaction for the account of the Fund which involves the assumption of any liability which is unlimited; or
- (ix) apply any part of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made unless such call could be met in full out of cash or near cash forming part of the Fund which has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purpose of sub-section "Financial Derivatives Instruments - Financial derivative instruments which gives rise to a future commitment or contingent commitment" below.

The liability of Unitholders must be limited to their investments in the Fund.

For purpose of investment restriction monitoring, CAAP will be treated as an equity investment in A Shares instead of being classified as a derivative in determining the appropriate limits.

### **Securities Financing Transactions**

As of the date of this Offering Circular, there is no current intention for the Fund to engage in Securities Lending Transactions, Sale and Repurchase Transactions and Reverse Repurchase Transactions (collectively, "securities financing transactions"), but this may change in light of market circumstances and if the Fund engages in securities financing transactions, prior approval shall be obtained from the SFC (where necessary) and no less than one month's prior notice will be given to the Unitholders.

### **Financial Derivatives Instruments**

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

The net derivative exposure of the Fund shall be calculated in accordance with the SFC's Code on Unit Trusts and Mutual Funds and the requirements and guidance issued by the SFC which may be updated from time to time. For details on the calculation methodology for the net derivative exposure, please refer to the Guide on the Use of Financial Derivative Instruments for Unit Trusts and Mutual Funds issued by the SFC on 17 December, 2018.

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## INVESTMENT AND BORROWING RESTRICTIONS

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The Fund may acquire financial derivative instruments:

(1) for hedging purposes (as defined under Chapter 7.25 of the SFC's Code on Unit Trusts and Mutual Funds); and

(2) for investment purposes subject to the limit that the Fund's net exposure relating to these financial derivative instruments, calculated in accordance with the SFC's Code on Unit Trusts and Mutual Funds and applicable requirements and guidelines issued by the Commission which may be updated from time to time, in any case does not exceed 50% of the total Net Asset Value of the Fund,

PROVIDED THAT:

(a) the Fund's exposure to the underlying assets of the financial derivative instruments, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in Chapter 7 of the SFC's Code on Unit Trusts and Mutual Funds;

(b) The financial derivative instruments invested by the Fund should be either listed/quoted on a stock exchange or dealt in over-the-counter market;

(c) 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 Fund may invest according to its investment objectives and policies;

(d) 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;

(e) subject to sub-paragraphs (i) and (iA) under the section "Investment Restrictions" above, the Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of the net asset value of the Fund, provided that the exposure of the Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and

(f) 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) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party services. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Trust's initiative. Further, calculation agent/fund administrator (if engaged) 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.

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## **INVESTMENT AND BORROWING RESTRICTIONS**

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For the purpose of (2) above, financial derivative instruments acquired for hedging purposes will not be counted towards the 50 per cent. limit referred to in (2) above so long as there is no residual derivative exposure arising from such hedging arrangement.

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 Fund to meet its hedging objective in stressed or extreme market conditions.

The 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 assets used to cover the Fund's payments and delivery obligations should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a security and cannot be applied for any other purposes. The Manager should, as part of its risk management process, monitor to ensure that the transactions in financial derivative instruments are adequately covered on an ongoing basis.

### *Financial derivative instruments which gives rise to a future commitment or contingent commitment*

Where a transaction in financial derivative instruments which gives rise to a future commitment or contingent commitment of the Fund should be covered as follows:

(a) in the case of financial derivative instruments transactions which will, or may at the Manager's discretion, be cash settled, the Manager should ensure that the Fund should at all times have 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 Fund should have 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 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 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.

For the avoidance of doubt, where a financial instrument embeds a financial derivative, this section "Financial Derivatives Instruments" will also apply to the embedded financial derivative (that is, the financial derivative instrument that is embedded in another security, namely the host contract).

### **Other Investment Restrictions**

In addition, as of the date of this Offering Circular, there is no current intention for the Fund to make investment in:

- (i) urban investment bonds (城投债) (urban investment bonds are debt instruments issued by local government financing vehicles ("LGFVs") in the listed bond and interbank bond-market in China, and these LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects);
- (ii) asset backed securities (including asset backed commercial papers); and

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## INVESTMENT AND BORROWING RESTRICTIONS

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- (iii) bonds which are rated BB+ or below by China's local credit rating agency and unrated bonds (means bonds which neither the bond itself nor its issuer has a credit rating assigned by any credit rating agency), and if the relevant bond does not have a credit rating then reference can be made to the credit rating of the issuer of the bond, which will become the implied rating of the bond,

but this may change in light of market circumstances and if the Fund invests in the above-mentioned instruments, prior approval shall be obtained from the SFC (where necessary) and no less than one month's prior notice will be given to the Unitholders.

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

The Fund's direct investments in A Shares through the QFI licence of the Manager and the Stock Connect are also subject to compliance with the following investment restrictions applicable to each QFI (including the Manager):

- (i) shares held by each underlying foreign investor who makes investment through the QFI scheme and/or Stock Connect in one listed company should not exceed 10% of the total outstanding shares of the company; and
- (ii) total A Shares held by all underlying foreign investors who make investment through the QFI scheme and/or Stock Connect in one listed company should not exceed 30% of the total outstanding shares of that company.

However, strategic investments in listed companies listed on the PRC Stock Exchanges in accordance with the Measures for the Administration of Strategic Investment of Foreign Investors in Listed Companies (《外國投資者對上市公司戰略投資管理辦法》) are not subject to the above limitations.

### **Prohibited securities**

In accordance with the Manager's policy, the Fund will not invest in the securities of corporations that are involved directly and indirectly in the use, development, manufacturing, stockpiling, transfer or trade of cluster munitions and/or anti-personnel mines. As this policy aims to prohibit investment in certain types of securities, investors should be aware that this reduces the investment universe and prevents the Fund benefitting from any potential tracking error reduction from investing in these corporations.

### **BORROWING RESTRICTIONS**

The Manager may borrow up to 10% of the Net Asset Value of the Fund for providing liquidity or taking advantage of investment opportunities. Back-to-back loans will not be taken into account when determining whether or not such limit has been breached by the Fund. The assets of the Fund may be charged or pledged as security for any such borrowings.

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## **RISK FACTORS**

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Prospective investors should carefully consider the risk factors described below together with all of the other information included in this Offering Circular before deciding whether or not to invest in the Units.

### **RISKS RELATING TO THE FUND**

#### **Net asset value discount**

The Fund is a close-ended fund and no Unitholders may demand redemption of their Units unless otherwise permitted in the Trust Deed. In general, close-ended funds may trade at a discount or at a premium to their Net Asset Value. There is no assurance that the Units will be traded at a price that is equal to the Net Asset Value. As the market price of the Units may be determined by factors such as Net Asset Value and market supply and demand for the Units, there is a risk that the Units will be traded at a discount to its Net Asset Value. In times of market disruption or when there is an insufficient number of buyers and/or sellers of Units, the bid/ask spread of the market price of the Units may widen significantly.

#### **Risks associated with the Fund's investments**

The Fund is an investment trust. Investments of the Fund will be subject to market fluctuations and risks inherent in all investments and might also be affected by external factors such as global economic recession or the occurrence of any force majeure events which are beyond the control of the Fund. Investors should also be aware that the value of the securities of such companies may fall as well as rise. Therefore, the income of the Fund and the Net Asset Value might be adversely affected. Since emerging markets tend to be more volatile than developed markets, investments in emerging markets such as the PRC market are exposed to higher levels of market risk. Before making an investment decision, a prospective investor should consider the suitability of this investment with respect to the investor's investment objectives and personal risk profile.

#### **Active investment management**

The Manager will invest the assets of the Fund in investments which it considers will achieve the investment objective of the Fund. Whilst it is the intention of the Manager to implement strategies which are designed to achieve such objective, no guarantee or representation is made that such strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques. In particular, any past results of the Manager with other investments or funds are not necessarily indicative of the future performance of the Fund and the Fund's actual performance may lag behind that of similar funds or investment companies. Investments in the Fund involve significant risks. It is possible that an investor may lose a substantial proportion or all of its investment in the Fund.

#### **The Fund may be terminated if the Net Asset Value falls below HK\$400 million**

If the Net Asset Value at any time falls below HK\$400 million after three (3) years from the Listing Date, the Manager may in their absolute discretion terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) without any approval of the Unitholders by giving at least three (3) months' prior written notice.



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## **RISK FACTORS**

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### **Risks of investing in other investment companies, unit trusts or mutual funds**

The Fund's investments may comprise shares in other investment companies including foreign investment companies and mutual funds and units in unit trusts. The market value of such shares or units may differ from the Net Asset Value of the relevant fund. As a shareholder in an investment company or mutual fund or a unitholder in a unit trust, the Fund would bear its ratable share of that entity's expenses, including its investment advisory and administration fees. At the same time, the Fund would continue to pay its own advisory and administration fees and other expenses. As a result, the Fund and the Unitholders, in effect, will be absorbing duplicate levels of fees with respect to investments in other investment companies, unit trusts or mutual funds.

### **Risk of investing in CAAPs and ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares**

CAAPs may not be listed and are subject to the terms and conditions imposed by their issuer. These terms may lead to delays in implementing the Manager's investment strategy. Investment in CAAPs can be illiquid as there may not be an active market in the CAAPs. In order to liquidate investments, the Fund relies upon the counterparty issuing the CAAPs and other synthetic instruments to gain exposure to A Shares to quote a price to unwind any part of such CAAPs.

An investment in a CAAP is not an investment directly in the underlying investments (such as shares) themselves. An investment in the CAAP to gain exposure to A Shares does not entitle the holder of such instrument to the beneficial interest in the shares nor to make any claim against the company issuing the shares.

The Fund will be subject to credit risk of the issuers of the CAAPs invested by the Fund. The Fund may suffer a loss if the issuers of the CAAPs becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties.

When the Fund invests in ETFs (including synthetic ETFs) authorised by the SFC with exposure to A Shares, such ETFs are subject to risks similar to those mentioned above when those ETFs are synthetic instruments using financial derivative instruments to achieve their investment objectives.

### **Lack of majority control over investee companies**

The Fund's holding of ordinary shares of a single class (other than Government and other public securities) may not exceed 10% of the nominal amount of the ordinary shares of the same class in issue. Under the current QFI scheme, an underlying foreign investor who makes investment through the QFI scheme, Stock Connect and/or other permissible channels is prohibited to hold more than 10% of total outstanding shares of a listed company or a company admitted on the National Equities Exchange and Quotations. All investments made or to be made by the Fund will therefore be passive in nature and the Fund will not be able to exert any control over the relevant investee companies. Investee companies may need to raise additional funds in the future to finance their respective businesses and operations. If additional funds are raised through the issue of new equity or equity-linked securities other than on a pro rata basis to their existing shareholders, the Fund's interests in the investee companies may be diluted accordingly.

### **Market risk**

The Net Asset Value of the Units will change as a result of the fluctuations in the market value of the investments of the Fund. As a result, the price of Units may go down as well as up.

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## RISK FACTORS

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### **Asset class risk**

Although the Manager is responsible for the continuous supervision of the investment portfolio of the Fund, the returns from the types of Securities in which the Fund invests may underperform returns from other securities markets or from investment in other assets. Different types of Securities tend to go through cycles of out-performance and underperformance when compared with other general securities markets.

### **Concentration**

There are various investment restrictions with which the Manager has to comply when managing the investments of the Fund. Despite such restrictions, the concentration of the Fund's investments in A Shares in the PRC may subject the Fund's investments to greater volatility than portfolios which comprise broad-based global investments. The Fund will be more susceptible to fluctuations in the share prices of the underlying A Shares resulting from adverse conditions in the PRC.

### **Hedging**

The Fund may also invest in derivatives for hedging purposes. The Manager is permitted, but not obliged, to use hedging techniques to attempt offsetting market and currency risks. There is no assurance that the hedging techniques to be adopted by the Manager will achieve a desired result which is beneficial to the Fund's investments.

### **Repurchase agreements**

Use of repurchase agreements involves certain risks. For example, if the seller of securities under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its insolvency or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller fails to repurchase the securities, the Fund may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted. In addition, it is also possible that the Fund may not be able to substantiate its interest in the underlying securities.

### **Short sales**

A short sale involves selling a security which the selling party does not own: it must borrow the security and place collateral with a lender, in order to make delivery to the buyer of such security. Such trading involves greater risk than a long-only strategy, because it involves the obligation to replace that borrowed security, whatever its price may be, at the time the selling party is required to deliver it to the lender. There is also a risk of not being able to cover short positions where the securities are not available for purchase in an illiquid market.

### **Counterparty risk**

The Fund will be subject to credit risk with respect to the counterparties to any investments or contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

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## RISK FACTORS

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### **Fixed-income securities risk**

The Fund may invest in fixed income securities rated investment grade or non-investment grade and may invest in unrated fixed income securities. Fixed-income securities in which the Fund may invest include Chinese government bonds, mortgage-backed securities, including collateralised mortgage obligations, corporate and other types of bonds (both investment and non-investment grade) and commercial paper. Non-investment grade debt securities in the lowest rating categories or unrated debt securities determined to be of comparable quality may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than issuers of higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities.

### **Convertible securities risk**

The Fund may invest in securities that are convertible into common stock or other securities of the same or a different issuer or into cash within a particular period of time at a specified price or formula. Convertible securities are usually fixed-income securities or preferred stock and generally entail less risk than the issuer's common stock. The value of a convertible security is a function of its "investment value" (its value as if it did not have a conversion privilege), and its "conversion value" (the security's worth if it were to be exchanged for the underlying security, at market value, pursuant to its conversion privilege).

To the extent that a convertible security's investment value is greater than its conversion value, its price will be primarily a reflection of such investment value and its price will be likely to increase when interest rates fall and decrease when interest rates rise, as with a fixed-income security (the credit standing of the issuer and other factors may also have an effect on the convertible security's value). If the conversion value exceeds the investment value, it is likely that the price of the convertible security will rise above its investment value and, in addition, will sell at some premium over its conversion value. This premium represents the price investors are willing to pay for the privilege of purchasing a fixed-income security with a possibility of capital appreciation due to the conversion privilege. At such times the price of the convertible security will tend to fluctuate directly with the price of the underlying equity security. Convertible securities may be purchased by the Fund at varying price levels above their investment values and/or their conversion values in keeping with the Fund's objective.

The Fund may invest in fixed income securities rated investment grade or non-investment grade and may invest in unrated fixed income securities. Although the Fund invests in these securities primarily on the basis of their equity characteristics, investors should be aware that convertible securities rated in non-investment grade categories are considered high risk securities; the rating agencies consider them speculative with respect to the issuer's continuing ability to make timely payments of interest and principal. Thus, to the extent that such convertible securities are acquired by the Fund, there is a greater risk as to the timely repayment of the principal of, and timely payment of interest or dividends on, such securities than in the case of higher-rated convertible securities.

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## **RISK FACTORS**

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### **Purchasing securities in initial public offerings**

The Fund may purchase securities of companies in initial public offerings or shortly after those offerings are complete. Special risks associated with these securities may include a limited number of shares available for trading, lack of a trading history, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. Such volatility can affect the value of the Fund's investment in these shares. The limited number of shares available for trading in some initial public offerings may make it more difficult for the Fund to buy or sell significant amounts of shares without an unfavourable effect on prevailing market prices. In addition, some issuers making initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these issuers may be undercapitalised or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving revenues or operating income. The Fund may expose to additional settlement and counterparty risks if the transactions are not settled on a delivery versus payment basis.

### **Investing in unlisted companies and securities with lock-up period**

The Fund may make direct investments in unlisted companies or enterprises. The Fund may, as strategic investor, invest in companies or enterprises which impose a lock-up period on the Fund's investment in such companies or enterprises. Such investments will be of medium to long term nature. The Fund expects to achieve capital growth, if any, by disposing of its interest in such companies or enterprises upon or after the listings of their securities or the expiry of the required holding period, or the sale of its interests therein to its joint venture partners or to third parties subject to the approval of the relevant parties and government authorities. However, there is no assurance that such capital gains can be realised as expected or that the requisite approvals can be obtained in a timely manner. The Fund's investments in such investments may therefore be illiquid. Investors are warned that this could lead to severe price volatility.

### **Inflation risk**

Inflation risk refers to fluctuations in the value of currency. Inflation decreases the value of money, thereby decreasing the real value of the Fund's future investment returns. To the extent that inflation occurs, it will reduce the real value of distributions (if any) paid to the Unitholders.

### **Trading risk and suspension of trading in the Units on the Stock Exchange**

The Stock Exchange may suspend trading in the Units if, in its judgement, it is in the best interests of the market and investors in general. During the period of suspension, investors will not be able to purchase or sell the Units on the Stock Exchange.

### **Units may be delisted from the Stock Exchange**

The Stock Exchange imposes certain requirements for the continued listing of securities, including the Units, on the Stock Exchange. Investors cannot be assured that the Fund will continue to meet the requirements necessary to maintain the Listing or that the Stock Exchange will not change the listing requirements.

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## RISK FACTORS

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### Foreign exchange risk

A major part of the Fund's investments will be denominated in RMB and a major portion of the Fund's revenue and income will be received in RMB, any fluctuation in the exchange rate of the Hong Kong dollars relative to RMB will affect the Net Asset Value of the Units regardless of the performance of the Fund's underlying portfolio. As the Net Asset Value will be quoted in Hong Kong dollars, investors may suffer losses if RMB depreciates against Hong Kong dollars.

The Fund may also from time to time invest in securities denominated in other foreign currency. Exchange rate movements may affect the value of Investment.

Since the Fund will aim at maximising returns in Hong Kong dollars, investors whose base currency is not Hong Kong dollars (or a currency linked to it) may be exposed to additional currency risk.

### Foreign exchange transaction risk

Foreign exchange transactions involve a significant degree of risk, even if they are entered into for the purpose of hedging only. The markets in which foreign exchange transactions are effected are highly volatile, highly specialised and highly technical. Significant changes, including changes in liquidity, may occur in such markets within very short periods of time, often within minutes. Foreign exchange transaction risks include, but are not limited to:

- (i) exchange rate risk;
- (ii) maturity gaps;
- (iii) interest rate risk; and
- (iv) potential interference by government intervention through regulation of local exchange markets, foreign investment or particular transactions in foreign currency.

In addition, under the QFI scheme, SAFE now allows QFIs to engage in foreign exchange derivatives transactions with its custodians or domestic financial institutions qualified for RMB-foreign exchange derivatives business for clients, on a "real demand" basis.

### Credit risk

The value of the Fund is subject to risk resulting from changes in the credit worthiness of its underlying investments. For example, an issuer of a bond or a security might not be able to meet its obligation to make interest and principal payments, or investors as a whole may downgrade their view of the issuer resulting in a deterioration of the price of the issuer's debt or security.

### Potential conflicts of interests

The Manager or Investment Delegates as may be appointed by the Manager from time to time may, in the course of their business, have potential conflicts of interests in relation to the Fund and may promote, manage, advise or otherwise be involved in any other funds or investment companies while they act as the Manager of the Fund. For instance, associated companies or directors of the Manager or Investment Delegates appointed from time to time (if any) may act as underwriter(s) for securities sold to the Fund or provide investment management and/or advisory services to other clients (including other funds).

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## **RISK FACTORS**

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The Manager or its associated companies or any director will be free to render services similar to those which the Manager is providing to the Fund to other clients (including other funds). Further, the Manager or its associated companies may receive commission, brokerage and other charges in relation to the sale or purchase of any investment by the Fund.

Besides, connected persons of the Manager and the Trustee and their respective delegates may enter into business relationships with the Fund, under which such connected persons and their delegates may act as service providers for the Fund and be compensated by the Fund for the services provided, or may act as counterparties in any transactions in relation to the Fund. Such transactions must be executed at arm's length and in the best interests of the Unitholders and, where applicable, may only be made with the prior written consent of the Trustee.

At present, the Manager and the Investment Delegates are also the manager or investment adviser of a number of funds whose investment objectives, investment approach and investment restrictions are similar to those of the Fund. The Manager is aware of the potential conflicts of interests in allocating investment opportunities between the Fund and such other funds. The Manager has therefore developed internal systems and controls to ensure that all the funds and accounts which they manage, including the Fund, are treated fairly, after considering whether or not the acquisition or disposition of investment is economical to a particular fund or account and the objectives, restrictions and strategies of such fund or account.

Potential investors should refer to the section headed "Potential conflicts of interests" below for further information in relation to potential conflicts of interests of the Manager.

### **Equity Market Risk**

The returns of listed securities are affected by various factors including the underlying strength of cash flows, balance sheets and the management of the issuing entity of the listed securities. These factors may impact the ability of the underlying company to meet the challenges of fluctuating economic growth, structural change and competitive forces and the performance of the Fund.

### **Indemnity Risk**

The Trustee and the Manager will be indemnified expressly under the terms of the Trust Deed or by law against any actions, costs, claims, damages, expenses or demands to which Trustee and/or the Manager may be put as trustee and/or manager to have recourse to the Fund; provided that neither the Trustee nor the Manager will be indemnified against any liability in respect of any fraud, wilful default or breach of their respective duties. Any indemnification from the Fund will have a negative impact on the Net Asset Value.

### **Termination Risk**

Subject to approval by the SFC, the Fund may be terminated under the circumstances set out in the section headed "Termination of the Fund" in this Offering Circular. Unitholders may not be able to recoup all of their initial investment in the Fund.

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## RISK FACTORS

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### **Risk of withdrawal of authorization**

The Fund has been authorized as a collective investment scheme under the SFC's Code on Unit Trusts and Mutual Funds pursuant to section 104 of the SFO. However, the SFC reserves the right to withdraw the authorization of the Fund. The SFC has a right to withdraw its authorisation of the Fund.

### **Withholding Tax Risk**

Investors should note that (i) the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market including taxation levied by withholding at source and/or (ii) the Fund's investments may be subject to specific taxes or charges imposed by authorities in some markets. Regarding FATCA, although the Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund will be able to satisfy these obligations. If the Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses. On the other hand, if an investor or an intermediary through which it holds its interest in the Fund fails to provide the Fund, its agents or authorised representatives with any correct, complete and accurate information that may be required for the Fund to comply with FATCA, the investor may be subject to withholding on amounts otherwise distributable to the investor, may be compelled to sell its interest in the Fund or, in certain situations, the investor's interest in the Fund may be sold involuntarily (provided that the Manager or the Trustee shall observe relevant legal requirements and shall act in good faith and on reasonable grounds). In particular, investors and potential investors should note the sub-section headed "Foreign Account Tax Compliance Act (FATCA) and similar measures" under the section headed "Taxation and Regulatory Requirements".

### **RISKS ASSOCIATED WITH THE RECURRING REDEMPTION OFFER**

**The Manager may, subject to certain conditions, offer a right to all Unitholders to redeem part or all of their holdings in the Fund (subject to a redemption levy) as the Manager determines at its discretion taking into account the best interests of the Unitholders. However, Unitholders should note that a decrease in the Net Asset Value of the Fund may not necessarily trigger a Recurring Redemption Offer. Unitholders should note that the Manager shall not be obliged to offer any Recurring Redemption Offer. Please refer to "Possible Redemption of Units" on page 47 of this Offering Circular for details.**

### **Impact on the total expense ratio, size of the Fund and risk of termination**

The Recurring Redemption Offer, (i) if effected, will increase the total expense ratio of the Fund as a result of the expenses incurred with respect to the Recurring Redemption Offer and such expenses are not covered by the redemption levy and (ii) reduce the size of the Fund after such Recurring Redemption Offer is effected. The Manager may decide to terminate the Fund on any date if on such date the asset value of the Fund shall be less than HK\$400,000,000 under the Trust Deed without any approval of the Unitholders by giving at least three (3) months' prior written notice.

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## **RISK FACTORS**

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### **Uncertainty on the payment date of the redemption proceeds**

The Manager shall use its best endeavours to pay all the redemption proceeds, less the redemption levy, to Unitholders within 2 months after the relevant redemption day with respect to each Recurring Redemption Offer. Currently repatriations by QFIs are not subject to any lock-up period or monthly repatriation limits, but may be subject to the provision of certain documents including a special audit report for investment profits issued by a PRC certified public accountant and the required tax filing documents (particularly in the case of the winding-up/liquidation of the Fund), which may take time to obtain in practice given the uncertainties around the PRC tax issues. Therefore, distribution of redemption proceeds from any Recurring Redemption Offer payable out of the Fund's assets in the PRC may be delayed beyond the control of the Manager and there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months. The Fund will also use its assets outside PRC to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable within 10 Business Days from the relevant redemption day. Accordingly, the Fund may need to pay the redemption proceeds, less the redemption levy, by instalments depending on a number of factors including, but not limited to, the total amount of redemption requests, the amount of offshore assets held by the Fund (i.e. assets outside the PRC), the time required by the Fund to repatriate funds from the PRC.

### **Uncertainty on the trading price and the Net Asset Value of the Fund**

Under the Recurring Redemption Offer, the Net Asset Value at which the eligible Units will be redeemed shall be determined using the relevant market closing price of the underlying investments of the Fund and the Fund's applicable operating expenses accrued or incurred to date on the relevant value day, and subject to the redemption levy and the relevant calculation method, shall be announced by the Manager no later than two Business Days after the value day. The redemption levy is to be retained by the Fund for the benefit of the Fund. Unitholders should note that the Net Asset Value at which the eligible Units will be redeemed may be higher or lower than the traded price of the Units. There is no assurance that the Fund will be traded at a price that is equal to or at a reduced discount to its Net Asset Value subsequent to the effecting of the Recurring Redemption Offer or that the performance of the Fund will be improved or enhanced thereafter.

### **Uncertainty on whether a Unitholder may redeem all its Units**

As the total number of Units to be redeemed by the Unitholders shall not exceed 20% of the total outstanding number of Units as a whole as at the relevant lodgement date, a Unitholder may not be able to redeem all the Units he or she applies to redeem under the Recurring Redemption Offer regardless of whether he or she applies to redeem more or less than 20% of the Units he or she owns at the lodgement date.

In the event that the aggregate number of Units for which applications to redeem are made under the Recurring Redemption Offer exceeds 20% of the outstanding number of Units as at the lodgement date, the Manager shall apply the relevant realisation proceeds to satisfy the redemption requests of Unitholders wishing to redeem their Units on a pro rata basis based on the number of Units the Unitholders have validly applied to redeem, rounded down to the nearest whole Unit.



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## **RISK FACTORS**

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### **Risk of Odd Lots**

Any Units held by Unitholders that are not successfully redeemed under the Recurring Redemption Offer may be in odd lots. The realisable price of such odd lot Units may be significantly lower than the traded price for such Units.

### **Remittance risk**

All documents and remittances will be sent to the Unitholders through ordinary post at their own risk. These documents and remittances will be sent to the Unitholders at their respective addresses as they appear in the register of Unitholders, and in the case of joint Unitholders, to the Unitholder whose name appears first in the register of Unitholders.

### **RISKS RELATING TO THE PRC**

Investing in the PRC carries a high degree of risk. Apart from the usual investment risk, investing in the PRC is also subject to certain other inherent risks and uncertainties.

#### **Emerging market risk**

Investing in emerging markets such as the PRC subjects the Fund to a higher level of market risk than investments in a developed country. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk, greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### **Political and economic considerations**

Prior to 1978, the PRC economy was centrally planned, and the PRC government has been responsible for formulating five-year plans for the country which set forth economic targets. However, since 1978, China has implemented a series of economic reform programmes in an effort to revitalise its economy and improve living standards through the creation of a socialist market economy. In connection with these reforms, the PRC government has lifted output controls on numerous agricultural and industrial enterprises, relaxed price controls on most products, and implemented policies designed to attract foreign investment and technology. The PRC government has also introduced tax and fiscal reforms designed to improve the uniformity and fairness of China's tax system and to formalise the distribution of tax revenues between the central and local levels of government. The PRC government is continuing to reform its state-owned enterprises in order to increase their productivity, efficiency and profitability. In March 1999, the NPC amended China's Constitution to further confirm, as a constitutional matter, that individual and private sectors of the economy constitute an important component of China's socialist market economy and that legitimate rights and interests of individual and private sectors of the economy are protected by law. The economy of China, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, state of development, growth rate, control of foreign exchange and allocation of resources.

The PRC government has in recent years implemented economic reform measures emphasising the utilisation of market forces in the development of the PRC's economy and a high level of management autonomy. However, there can be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. Any adjustment and modification of those economic policies may have an adverse impact on the securities markets in the PRC as well as on overseas companies which trade with or invest in the PRC.

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The economy of the PRC has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The PRC government may from time to time adopt corrective measures to control inflation and restrain the rate of economic growth, which may also have an adverse impact on the capital growth and performance of the Fund. Further, political changes, social instability and adverse diplomatic developments in the PRC could result in the imposition of additional government restrictions including the expropriation of assets, confiscatory taxes or nationalisation of some or all of the investments held by the underlying securities in which the Fund may invest.

Furthermore, a portion of the economic activity in the PRC is export-driven, hence, is affected by developments in the economies of the principal trading partners of the PRC. Given that the PRC stock market has in the past experienced substantial price volatility, there is no assurance that such volatility will not occur in the future. The above factors could negatively affect the value of the investments held by the Fund and the Net Asset Value.

### **Government control of currency conversion and future movements in exchange rates**

RMB is currently not freely convertible. Since 1994, the conversion of RMB into Hong Kong dollars and United States dollars has been based on rates set by PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate. From 1994 to 20 July, 2005, the exchange rate for RMB against the United States dollars and the Hong Kong dollars has been generally stable. On 21 July, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against the United States dollars. Since then, the PRC central bank has allowed the official RMB exchange rate to float against a basket of foreign currencies. On 16 April, 2012, PBOC enlarged the previous floating band of the trading prices of the RMB against the United States dollars in the inter-bank spot foreign exchange market from 0.5% to 1% in order to further improve the managed floating RMB exchange rate regime based on market supply and demand with reference to a basket of currencies. This floating band was further enlarged to 2% since 17 March, 2014. There can be no assurance that such exchange rate will not fluctuate widely against the United States dollars, Hong Kong dollars or any other foreign currency in the future. Any appreciation of RMB will increase the value of any dividends that the Fund may receive from its PRC investments and the Net Asset Value, which will be quoted in Hong Kong dollars, and vice versa.

### **Stock market circuit breaker risk**

On 1 January, 2016, a stock market circuit breaker mechanism was introduced in the PRC and subsequently suspended on 8 January, 2016. Under the original rules, generally, the PRC Stock Exchanges and the China Financial Futures Exchange will halt trading for 15 minutes when the CSI300 index moves a certain percentage threshold in either direction, and will freeze trading for the rest of the day where fluctuation of the CSI300 index in either direction reaches a higher percentage threshold (subject to announcement of the relevant exchange). It is uncertain when the circuit breaker mechanism may be reintroduced and whether the relevant rules would be amended. If this circuit breaker mechanism (or such other mechanism with similar features) is introduced again, it may impact the Fund's ability to implement its investment strategy effectively.

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### **Legal and regulatory system**

The PRC legal system is a codified legal system comprising written statutes, regulations, circulars, administrative directives, internal guidelines and their interpretation by the Supreme People's Court. Unlike common law jurisdictions such as Hong Kong, decided cases do not form part of the legal structure of the PRC, prior court decisions may be cited for reference but have no binding effect. Experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into is also limited. As such, the administration of the PRC laws and regulations may be subject to a certain degree of discretion by the authorities. The outcome of dispute resolutions may not have the level of consistency or predictability as in other countries with more developed legal systems. Due to such inconsistency and unpredictability, if the Fund should be involved in any legal dispute in the PRC, it may experience difficulties in obtaining legal redress or in enforcing its legal rights. Thus, there is no assurance that such inconsistency or future changes in legislation or the interpretation thereof may not have any adverse impact upon the investments of the Fund in the PRC.

Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. Two examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which came into effect on 1 October, 1999, and the Securities Law of the PRC, which came into effect on 1 July, 1999 and was last revised in the year of 2020. However, as these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations generally involve significant uncertainties.

Despite the PRC government's effort in improving commercial laws and regulations in the PRC, many of these laws and regulations remain unclear. The PRC government is still in the process of developing a comprehensive set of laws and regulations in the course of PRC's transformation from a centrally planned economy to a more free market oriented economy. Along the developing process of the PRC legal and regulatory system, there is no assurance that any future changes in such laws and regulations or their interpretation or their enforcement thereof will not have any material adverse effect on the Fund's investments in the PRC.

CSRC is responsible for supervising the national securities markets and producing relevant regulations in the PRC. The securities market and the regulatory framework for the securities industry in the PRC is still at an early stage of development as compared with those of developed countries, there may be lower level of regulatory monitoring system of the activities in an emerging securities market.

### **Nationalisation and expropriation**

After the formation of the Chinese socialist state in 1949, the Chinese government renounced various debt obligations and nationalised private assets without providing any form of compensation. There can be no assurance that the Chinese government will not take similar actions in the future. Accordingly, an investment in the Fund involves a risk of a total loss. However, in recent years, PRC government has adopted a more friendly attitude towards foreign investment in the PRC. As provided by PRC Foreign Investment Law effective from 1 January, 2020, the nationalisation and expropriation shall not be imposed to foreign invested enterprises unless such measures may be conducted with corresponding fair and reasonable compensation under certain special circumstances and for the purposes of public interests. The NPC promulgated

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the PRC Property Rights Law which has come into effect on 1 October, 2007. It is clearly stated in the new Property Rights Law that expropriation of houses and other real properties of individuals and institutions shall be subject to compensation.

### QFI

Under the prevailing regulations in the PRC, foreign investors can invest in the A Share market through institutions that have obtained QFI status in the PRC. The Fund itself is not a QFI, but may invest directly in A Shares via the QFI licence obtained by the Manager.

The QFI licence granted by CSRC to the Manager is valid until this is terminated by the CSRC. In the event that the licence of the Manager is being terminated by the CSRC, the Manager will lose its status as a QFI. Should the Manager lose its QFI status or the Manager retires or is removed, the Fund may not be able to invest through the Manager's QFI licence in A Shares and other QFI Permitted Financial Instruments under the Investment Regulations, and the Fund may be required to dispose of its holdings which would likely have a material adverse effect on the Fund.

Investors should note that the prevailing rules and regulations governing QFI impose certain restrictions on QFIs' investments in A Shares and other QFI Permitted Financial Instruments permitted under the Investment Regulations, which will restrict the ability of the Fund to invest in A Shares and such instruments.

- *Investment Restrictions, Repatriation, etc*

Direct investments in A Shares through the QFI scheme are subject to compliance with the following investment restrictions which are currently in force and applicable to each QFI (including the Manager):

- (i) shares held by each underlying foreign investor who makes investment through the QFI scheme and/or Stock Connect in one listed company should not exceed 10% of the total outstanding shares of the company; and
- (ii) total A Shares held by all underlying foreign investors who make investment through the QFI scheme and/or Stock Connect in one listed company should not exceed 30% of the total outstanding shares of that company.

However, strategic investments in listed companies listed on the PRC Stock Exchanges in accordance with the Measures for the Administration of Strategic Investment of Foreign Investors in Listed Companies (《外國投資者對上市公司戰略投資管理辦法》) are not subject to the above limitations.

The investment restrictions will be applied to underlying foreign investors. However, it will be difficult in practice for the QFI to monitor the investment of the underlying foreign investors since the investor may make investment through different QFIs. Investors should be aware that violations of the QFI regulations may arise out of activities relating to the utilisation of the Manager's QFI licence by its customers other than the Fund, such violations could result in the revocation of or other regulatory action in respect of the QFI licence of the Manager. For the purposes of calculating the 10% investment limit on shares held by each underlying foreign investor who makes investment through the QFI scheme in one listed company as mentioned above in this Offering Circular, the holdings of the Fund and other clients of the Manager may need to be aggregated.

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In this regard, the capacity of the Fund to make investments in A Shares may be adversely affected by the investment activities of other clients of the Manager who utilise the QFI licence of the Manager.

In addition, since there are limitations on total shares held by all underlying investors in one listed company, the capacity of the Fund to make investments in A Shares will be affected by the activities of all underlying investors, not just the Manager.

Repatriations of net realised profits could be handled directly by the QFI Custodian, which requires the submission of an undertaking letter of tax clearance, which relates to the uncertainties around the general PRC tax issues as discussed in the section headed "Taxation in the PRC" on page 42 of this Offering Circular.

- *Currency and Exchange Rate*

Under the QFI scheme, the Fund's investments include A Shares or other permissible securities denominated in RMB while the Net Asset Value will be quoted in Hong Kong dollar. Funds that the Fund will make available to make such investments will be converted into RMB. The cost of investments of the Fund in A Shares or other securities denominated in RMB and the performance of such investment will be affected by the exchange rate movements between Hong Kong dollars and RMB.

- *Manager, QFI Custodian and PRC Brokers*

Since the Manager has assumed dual roles as the Manager of the Fund and the QFI licence holder, the Manager will ensure all transactions and dealings be made in compliance with the Trust Deed as well as the relevant laws and regulations applicable to the Manager. However, there can be no assurance that investments of the Fund can be realised in a timely manner due to possible adverse changes in relevant laws or regulations, which will hinder the Fund's ability in pursuing the investment objectives or result in loss under extreme circumstances.

Any A Shares or other QFI Permitted Financial Instruments acquired by the Fund through the QFI licence of the Manager will be maintained by its QFI Custodian, in electronic form via a securities account in such name as may be permitted or required in accordance with PRC law with ChinaClear. The QFI Custodian is Bank of Communications Co., Ltd.. Pursuant to an agreement entered into between the Manager as the QFI and the QFI Custodian, and a participation agreement entered into among the Manager, the QFI Custodian and the Trustee, relating to the custody, operation and management of the Fund's assets in the PRC, the QFI Custodian is responsible for providing custody services to the Fund's assets (except for interests in open-ended funds acquired for the account of the Fund, which will be maintained in the accounts opened with the registration institutions as appointed by the relevant fund managers) and uninvested cash in the PRC. Further, the Manager has selected brokers ("**PRC Brokers**") to execute transactions for the Fund in the PRC markets.

The Fund may incur losses due to the acts or omissions of the QFI Custodian or the fund managers, and will be exposed to the risk involved in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC settlement system. However, if such acts or omissions are caused by the negligence or breach of the relevant agreements on the part of the QFI Custodian or the fund managers, such party shall be liable to the Fund for any losses, liabilities, costs and expenses suffered by the Fund.

The Fund may incur losses due to the acts or omissions of the PRC Brokers and will be exposed to the risk involved in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC settlement system. However, if such

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acts or omissions are caused by the gross negligence or breach of the relevant agreements on the part of PRC Brokers, such party shall be liable to the Fund for any losses, liabilities, costs and expenses suffered by the Fund.

The Manager needs to appoint broker(s) in the PRC to execute transactions for the Fund in the PRC markets. Should, for any reason, the Manager be unable to use the relevant broker in the PRC (for instance, as a result of a credit event of the broker or when the broker becomes disqualified to act as the broker of the Fund) the operation of the Fund would be adversely affected. The Manager shall exercise reasonable care and diligence in the ongoing monitoring of the PRC Brokers and be satisfied that the PRC Brokers retained remain suitably qualified and competent to provide the relevant service.

- *Risk associated with QFI Custodian and PRC Brokers*

The QFI Custodian of the Fund is responsible for providing custody services to the Fund's cash and securities assets in the PRC. As the Fund invest in the PRC market where custodial and/or settlement systems are not fully developed, the assets of the Fund may be exposed to custodial risk. In addition, the QFI Custodian is also subject to certain QFI regulations under which the QFI Custodian is required to deposit a part of the assets of the Fund to a minimum clearing reserve fund and the amount of such minimum clearing reserve fund may change from time to time.

In the event that the QFI Custodian is liquidated, bankrupt or insolvent, the Fund may need a more lengthy time to recover their assets. In the event that there is any retroactive application of legislation and/or fraud or improper registration of the title of the assets of the Fund, the Fund's assets held by the QFI Custodian may, in whole or in part, become unavailable for withdrawal or delivery. Under such circumstances, the Fund may not be able to recover its assets, in whole or in part, held in custody by the QFI Custodian. The reduction in the quantity or value of such assets will create losses to the Fund. This will adversely impact the Fund. In addition, the costs borne by the Fund in investing and holding investments in the PRC market through a local custodian in the PRC will generally be higher than in developed securities markets. Such higher costs could adversely affect the asset value of the Fund and hence the investments of investors in the Fund.

As regards the PRC Brokers, there is a risk that the Fund may suffer losses, whether direct or consequential, from the default or bankruptcy of the PRC Broker or disqualification of the same from acting as a broker, which may prevent the Fund from trading to any further degree with that PRC Broker, potentially disrupting current or contemplated trades for particular securities and presenting an opportunity cost. This may affect the performance of the Fund and the investments of investors, as best execution or the transfer of certain funds or securities may not be immediately available or possible. This may also adversely affect the Fund in the execution or settlement of any transaction or in the transfer of any funds of securities.

Under QFI regulations, the assets, including cash, held by the QFI Custodian belong to the Fund as the ultimate beneficial owner, and they are segregated from the assets of the Manager, the QFI Custodian, the PRC Broker, and their respective clients. Under QFI regulations, if the Manager, the QFI Custodian or the PRC Broker is liquidated, the assets (including cash) which belong to the Fund do not form part of the liquidation assets of the Manager, the QFI Custodian or the PRC Broker. The Fund may incur losses due to a default, act or omission of either the PRC Broker or the QFI Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities and therefore may have adverse impact on the Fund.

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- *Developing Regulatory System*

The Investment Regulations which regulate investments by QFIs in the PRC and the repatriation and currency conversion are relatively new. The application and interpretation of such investment regulations is therefore relatively untested and there is no certainty as to how they will be applied. CSRC, SAFE and PBOC have been given wide discretions in such investment regulations and there is no precedent or certainty as to how these discretions might be exercised now or in the future. At this stage of early development, the QFI investment regulations may be subject to further revisions in the future, there is no assurance whether such revisions will prejudice the QFI(s) or CAAP(s) issued by the QFI(s) or other issuers.

### **Stock Connect**

- *Availability of Stock Connect Programme*

As of the date of this Offering Circular, the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect have been launched. The launch of the programme is subject to applicable laws, regulations and various implementation requirements including but not limited to the relevant stock exchange trading and clearing rules. If there are changes to such applicable laws, regulations and various implementation requirements, the Fund may not be able to participate in the programme, and the Fund's ability to access the A Share market may be limited accordingly. The Manager will update the relevant disclosures in this Offering Circular as and when necessary.

Stock Connect is a new trading programme. Currently there is no manual trade facility or block trade facility for Stock Connect Securities transactions under Northbound Trading and the Fund's investment options may become limited as a result. The scope of securities in Stock Connect is subject to adjustment by the applicable regulator, agency or authority with jurisdiction, authority or responsibility in respect of Stock Connect from time to time. This may adversely affect the Fund's ability to achieve its investment objective. In addition, Stock Connect and its technology and risk management capability has only a short operating history. There is no assurance that the systems and controls of Stock Connect will function as intended or whether they will be adequate.

Stock Connect may be subject to further regulatory or other changes and developments in both the Hong Kong and China markets that could adversely affect the Fund's ability to invest via Stock Connect or its investment strategy. There is no assurance that Stock Connect will be permitted to continue in existence.

- *Shenzhen-Hong Kong Stock Connect Specific Risks*

The Shenzhen-Hong Kong Stock Connect is newly launched and does not have an operating history. Investors should note that the performance of the Shenzhen-Hong Kong Stock Connect may not be the same as the performance of the Shanghai-Hong Kong Stock Connect to date.

- *Quota Limitations*

Stock Connect is subject to quota limitations which may restrict the Fund's ability to deal via Stock Connect on a timely basis. Northbound Trading under each relevant Stock Connect Market is subject to a daily quota of RMB13 billion respectively. Once the daily quota is used up, acceptance of the corresponding buy orders will also be immediately suspended and no further buy orders will be accepted for the remainder of the day. Buy orders which have been accepted will not be affected by the using up of the

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daily quota, while sell orders will be continued to be accepted. This may impact the Fund's ability to implement its investment strategy effectively.

Trade orders are entered into CSC based on time of order. Trade orders cannot be amended, but may be cancelled and re-entered into the CSC as new orders at the back of the queue. Due to quota restrictions or other market intervention events, there can be no assurance that trades executed through a broker will be completed.

- *Pre-Trade Checking*

PRC law provides that each relevant Stock Connect Market may reject a sell order if an investor does not have sufficient available A Shares in its account.

The sell order of A Shares by the Fund through Stock Connect may be held in a Special Segregated Account, that is, a special account as defined in the rules with respect to Stock Connect ("**SPSA Order**"). In respect of a sell order of A Shares by the Fund that is not a SPSA Order, the Stock Exchange will carry out a pre-trade checking on all the Fund's sell orders of Stock Connect Securities on the Northbound Trading link at the level of the Exchange Participants to ensure there is no overselling by any individual exchange participant ("**Pre-Trade Checking**"). The Pre-Trade Checking requirement may require a pre-trade delivery of the Stock Connect Securities from a Stock Connect Investor's domestic custodian or sub-custodian to the Exchange Participant which will hold and safekeep such securities so as to ensure that they can be traded on a particular trading day. There is a risk that creditors of the Exchange Participant may seek to assert that such securities are owned by the Exchange Participant and not the Stock Connect Investor, if it is not made clear that the Exchange Participant acts as a custodian in respect of such securities for the benefit of the Stock Connect Investor.

The Stock Exchange will carry out enhanced pre-trade checking in respect of any SPSA Order ("**Enhanced Pre-Trade Checking**"). In relation to Enhanced Pre-Trade Checking, the Fund needs to ensure that it has been designated a special segregated account with a corresponding investor identification number and there are sufficient available A Shares in a relevant Special Segregated Account to cover a proposed SPSA Order. Otherwise, the sell order will not pass the Pre-trade Checking and hence be rejected.

Although the Manager is entitled to execute Stock Connect trades through a number of brokers, given the Pre-Trade Checking requirements and hence the pre-trade delivery of Stock Connect Securities to an Exchange Participant, the Manager may determine that it is in the interest of the Fund that it executes certain Stock Connect trades through a broker who is affiliated to the Fund's sub-custodian that is an Exchange Participant. In these cases, whilst the Manager will be cognisant of its best execution obligations it will not have the ability to trade through multiple brokers and any switch to a new broker will not be possible without a commensurate change to the Fund's sub-custody arrangements.

- *Default Risk*

Stock Connect Securities will be held following settlement by brokers or custodians as clearing participants in accounts in CCASS maintained by HKSCC as central securities depository in Hong Kong and as nominee holder. HKSCC is the "nominee holder" of the Stock Connect Securities acquired by a Stock Connect Investor. While the distinct concepts of nominee holder and beneficial owner are generally recognized under the Stock Connect rules as well as other laws and regulations in mainland China, the application of such rules is untested, and there is no assurance that



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PRC courts will recognise such rules, e.g. in liquidation proceedings of PRC companies or other legal proceedings. In the unlikely event that HKSCC becomes subject to winding up proceedings in Hong Kong, investors should note that Stock Connect Securities will not be regarded as part of the general assets of HKSCC available for distribution to creditors under PRC and Hong Kong law. In addition, a failure or delay by HKSCC in the performance of its obligations may result in a failure of settlement, or the loss, of Stock Connect Securities and/or monies in connection with them and the Fund may suffer losses as a result.

ChinaClear has established a risk management framework and measures that are approved and supervised by the CSRC. Pursuant to the General Rules of CCASS, if ChinaClear (as the host central counterparty) defaults, HKSCC will, in good faith, seek recovery of the outstanding Stock Connect Securities and monies from ChinaClear through available legal channels and through ChinaClear's liquidation process, if applicable. HKSCC will in turn distribute the Stock Connect Securities and/or monies recovered to clearing participants on a pro-rata basis as prescribed by the relevant authority or responsibility in respect of Stock Connect. Stock Connect Investors in turn will only be distributed the Stock Connect Securities and/or monies to the extent recovered directly or indirectly from HKSCC. Although the likelihood of a default by ChinaClear is considered to be remote, Unitholders should be aware of this arrangement and of this potential exposure.

- *Corporate Action*

According to existing mainland China practices, the Fund as beneficial owner of A Shares traded via Stock Connect cannot appoint proxies to attend shareholders' meetings on its behalf. Stock Connect Investors like the Fund who hold the Stock Connect Securities (as beneficial owners) through HKSCC are therefore eligible to exercise their rights through the nominee only. However, under the CCASS Rules, HKSCC as nominee holder will not be obliged to take any legal action or enter into court proceedings to enforce any rights on behalf of Stock Connect Investors in mainland China but HKSCC may provide assistance to the Stock Connect Investors subject to conditions.

Accordingly, the Fund may only exercise voting rights with respect to Stock Connect Securities by giving voting instructions to HKSCC (through CCASS participants) who will then consolidate such instructions and submit them in the form of a combined single voting instruction to the relevant Stock Connect Market-listed company. Therefore, the Fund may not be able to exercise voting rights in respect of the underlying company in the same manner as in other markets.

In addition, any corporate action in respect of Stock Connect Securities will be announced by the relevant issuer through the relevant Stock Connect Market website and certain officially appointed newspapers. Stock Connect Investors may refer to the relevant Stock Connect Market websites and the relevant newspapers for the latest listed company announcements or, alternatively, the website of the Hong Kong Exchanges and Clearing Limited for corporate actions in respect of Stock Connect Securities issued on the previous trading day. However, Stock Connect Market-listed issuers publish corporate documents in Chinese only and English translations will not be available.

Given the short timescale within which proxy voting or other corporate actions are required to be taken in relation to the Stock Connect Securities, there is no assurance that CCASS participants who participate in Stock Connect will or will continue to provide or arrange for the provision of any voting or other related services. Accordingly, there is no assurance that the Fund will be able to exercise any voting rights or participate in any corporate actions in relation to Stock Connect Securities in time or at all.

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## RISK FACTORS

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Stock Connect Securities are uncertificated and are held by HKSCC as nominee for its account holders. Physical deposit and withdrawal of Stock Connect Securities are not available under the Northbound Trading for the Fund. The Fund's title or interests in, and entitlements to, Stock Connect Securities (whether legal, equitable or otherwise) will be subject to applicable requirements, including laws relating to any disclosure of interest requirement or foreign shareholding restriction. It is uncertain whether the Chinese courts would recognise the ownership interest of Stock Connect Investors to allow them standing to take legal action against Chinese companies.

- *Day Trading*

Save with a few exceptions, day (turnaround) trading is generally not permitted on the A Share market. If the Fund buys Stock Connect Securities on a dealing day (T), it may not be able to sell the Stock Connect Securities until on or after T+1 day.

- *Investor Compensation*

Investors should note that if the Fund engages in any Northbound Trading, the Fund will not be covered by Hong Kong's Investor Compensation Fund or the China Securities Investor Protection Fund and thus investors will not benefit from compensation under such schemes.

- *Delays in Trading*

Market participants must match, execute or arrange the execution of any sale and buy orders or any transfer instructions from investors in respect of any Stock Connect Securities in accordance with the Stock Connect rules. This rule against off-exchange trading and transfers for trading of Stock Connect Securities under Northbound Trading may delay or disrupt reconciliation of orders by market participants. However, to facilitate market players in conducting Northbound Trading and the normal course of business operation, off-exchange or "non-trade" transfer of Stock Connect Securities for the purposes of post-trade allocation to different funds/sub-funds by fund managers have been specifically allowed.

- *Difference in Trading Days/Hours*

Due to differences in public holidays between Hong Kong and mainland China or other reasons such as bad weather conditions, there may be a difference in trading days and trading hours between the relevant Stock Connect Market and the Stock Exchange. Stock Connect will only operate on days when both the Hong Kong and mainland China markets are open for trading and when banks in both markets are open on the corresponding settlement days. There may be occasions when it is a normal trading day for the mainland China market but it is not possible to carry out any A Shares trading in Hong Kong. Additionally, the Stock Exchange (or any relevant subsidiary) may, under certain circumstances as specified in the rules of the Stock Exchange, temporarily suspend or restrict all or part of the order-routing and related supporting services with regard to all or any Northbound Trading and for such duration and frequency as the Stock Exchange may consider appropriate at any time and without advance notice. As such, there is a risk of price fluctuations in A Shares during the time when Northbound Trading is suspended or restricted as described above.

- *Restricted Stock*

A stock may be recalled from the scope of eligible stocks for trading via Stock Connect for various reasons, and in such event the stock can only be sold but is restricted from being bought. This may adversely affect the ability of the Fund to trade via Stock Connect. Under Stock Connect, the Manager will only be allowed to sell A Shares but

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## RISK FACTORS

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restricted from further buying if: (i) the particular A Share stock subsequently ceases to be a constituent stock of the relevant indices; (ii) the particular A Share stock is subsequently under "risk alert"; and/or (iii) the corresponding H share of the particular A Share stock subsequently ceases to be traded on the Stock Exchange. Price fluctuation limits are also applicable to A Shares.

- *Fees and Tax.*

In addition to paying trading fees and stamp duties in connection with trading in A Shares, the Fund carrying out Northbound Trading may be subject to new portfolio fees, dividend tax and tax concerned with income arising from stock transfers as determined by the relevant authorities.

Please refer to "Taxation and Regulatory Requirements - The PRC" on page 60 of this Offering Circular for details.

- *Local Requirements*

Under Stock Connect, A Share listed companies and trading of A Shares are subject to market rules and disclosure requirements of the A Share market. Any changes in laws, regulations and policies of the A Share market or rules in relation to Stock Connect may affect share prices. Foreign shareholding restrictions and disclosure obligations are also applicable to A Shares.

The Fund and the Manager will be subject to restrictions on trading (including restriction on retention of proceeds) in A Shares as a result of their interest in the A Shares and are responsible for compliance with all notifications, reports and relevant requirements in connection with such interests.

Under current PRC law, once an investor holds up to 5% of the shares of a PRC-listed company, the investor is required to disclose his interest within three days in accordance with the applicable regulations and during the reporting period he cannot trade the shares of that company. The investor is also required to disclose any change in his shareholding and comply with related trading restrictions in accordance with PRC law.

- *Foreign Exchange Fluctuation.*

Stock Connect Securities under Northbound Trading will be traded and settled in RMB. The Fund will be exposed to currency risk if it invests in a RMB product due to the need for the conversion of the currency into RMB. The Fund will also incur currency conversion costs. Even if the price of the RMB asset remains the same when the Fund purchases it and when the Fund redeems / sells it, the Fund will still incur a loss when it converts the redemption / sale proceeds into local currency if RMB has depreciated.

- *Conflict of Interest*

The Fund may trade the Stock Connect Securities through a broker affiliated to the Trustee. In the event that there are circumstances where there may be a conflict of interest, the Manager will have regard to its obligations to act as investment manager in the interests of the Fund as far as practicable, and its obligations to other clients when undertaking any investments. In the event that such conflicts do arise, the Manager will act in the best interests of the Fund and use its best efforts to resolve such conflicts fairly.

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## **RISK FACTORS**

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### **Illiquidity and potential market volatility**

The trading volumes of the markets in the PRC through which the Fund may invest might be lower than those on the Stock Exchange or other leading stock exchanges. This means that the Fund may experience difficulty in investing in securities which trade exclusively on an exchange with low trading volumes and/or may experience difficulty in realising the value of such investments. Low turnovers may also result in significant price volatility and a potential lack of liquidity.

Under the investment objectives of the Fund, the Fund may invest in A Shares and B Shares. Investors should note that the PRC Stock Exchanges, on which A Shares and B Shares are traded, are in the process of change and development, their market capitalisation and trading volumes are lower than those in more developed financial markets. This may lead to trading volatility, difficulty in the settlement and recording of transactions, difficulty in interpreting and applying relevant regulations and potential lack of liquidity due to low trading volume in the markets. The Fund may be exposed to significant fluctuations in the prices of securities traded on those markets, and value of the Units may be adversely affected in the event the Fund has made any investments in such securities. The risk also exists that an emergency situation may arise in the market or large price fluctuation may exist in the market as a result of which trading of securities may cease or may be substantially curtailed.

### **Accounting and reporting standards**

PRC companies are required to follow PRC accounting standards and practice which follow international accounting standards to certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to PRC companies may be less rigorous, and there may be significant differences between financial statements prepared by accountants following the PRC accounting standards and practice and those prepared in accordance with international accounting standards. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors which may result in non-disclosure of certain material information of the investee entities the Fund may invest in.

As the disclosure and regulatory standards in China are less stringent than in more developed markets, there might be substantially less publicly available information about Chinese issuers. Therefore, disclosure of certain material information may not be made, and less information may be available to the Fund and other investors.

### **Taxation in the PRC**

There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised via the QFI scheme or Stock Connect or access products on the Fund's investments in the PRC (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund's value.

By investing in A Shares and other permissible PRC investments, the Fund may be subject to withholding and other taxes imposed in the PRC. Pursuant to the CIT Law and its Implementation Rules, a foreign enterprise that does not have any establishment or place of business in the PRC is subject to withholding income tax at the rate of 10% for the interest, royalty, rental and other income (including capital gains) earned from sources in the PRC.

The investments by the Fund in the PRC may further be subject to the relevant turnover tax and stamp duty. Please refer to "Taxation and Regulatory Requirements - The PRC" on page 60 of this Offering Circular for details.

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## RISK FACTORS

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The Manager, after seeking appropriate professional advice, may decide to make or not to make any tax provisions in respect of the Fund. Even if tax provisions are made, such provisions may be more than or less than the Fund's actual PRC tax liabilities and it is possible that such tax provisions made by the Manager may be insufficient. In case of a difference between the Fund's provision for taxes and its actual PRC tax liabilities, the relevant amounts shall be credited to or debited from the Fund's assets (as the case may be). As a result, the income from, and/or the performance of, the Fund may/may not be adversely affected and the impact/degree of impact on individual Unitholders of the Fund may vary, depending on factors such as the level of the Fund's provision for taxes (if any) and the amount of the difference at the relevant time and when the relevant Unitholders acquire and/or sell their shares in the Fund. In addition, the Unitholders may not have the right to claim any part of the overprovision.

Any tax provision, if made by the Manager, will be reflected in the Net Asset Value of the Fund at the time of debit or refund and thus will only impact on Units which remain in the Fund at that time. In the event the Manager considers it necessary to adopt any tax provision (whether in respect of the PRC enterprise income tax rules or any other applicable tax regulation/laws in the PRC) on a retrospective basis, the prevailing and/or future Net Asset Value of the Fund may be negatively impacted. The magnitude of such potential negative impact on the performance of the Fund may not correspond to an investor's profit or loss arising out of such investor's holding in the Fund as a result of the potential retroactive effect of any change in PRC tax.

The Manager will review and make adjustments to its tax provision policy as and when it considers necessary from time to time and as soon as practicable upon issuance of further notices or clarification issued by the PRC tax authority in respect of the application of the CIT Law and/or any other applicable tax regulations/laws and the respective implementation rules. There is a possibility that the current tax laws, rules, regulations and practice in mainland China and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Fund.

### **WTO**

The PRC became a member of WTO on 11 December, 2001. With the PRC's accession into the WTO, companies in which the Fund invests in the PRC may face increased competition as the PRC is required to significantly reduce the trade barriers for imports that have historically existed and that currently exist in the PRC, such as reducing restrictions on trading for certain kinds of products of foreign companies, lifting prohibitions, quantitative restrictions or other measures maintained against imports and significantly reducing tariffs. Any present or future increase in foreign competition may have an adverse effect on the Fund's investments in the PRC.

### **Risk relating to wars or terrorist attacks**

Any adverse political and/or economic impact on the PRC which may be originated from wars or terrorist attacks similar to the ones occurred in the US in September 2001 is possible. There can be no assurance that there will not be any wars or terrorist attacks which could have direct or indirect effect on the PRC in which the investments of the Fund will be located and the corresponding political and/or economic effects arising therefrom, if any, may in turn adversely affect the investments and profitability of the Fund.

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## **RISK FACTORS**

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### **The outbreak, or threatened outbreak, of any severe communicable disease in the PRC**

The outbreak, or threatened outbreak, of any severe communicable disease (such as severe acute respiratory syndrome or avian influenza) in the PRC, could materially and adversely affect the overall business sentiments and environment in the PRC, particularly if such outbreak is inadequately controlled. This in turn could materially and adversely affect the investments and profitability of the Fund.

### **Global economic downturn**

There is risk that the economic recovery of the U.S. after the financial crisis will be slow and there is risk that the U.S. economy will slip into low growth for a relatively long period. Through policies such as the monetary easing policies, the U.S. equity markets have recovered to a certain extent, though high unemployment remains a major concern. There is also pressure on the U.S. government to cut the budget deficit in order to prevent more complicated consequences. In Canada, though there are plans to gradually withdraw emergency stimulus while kindling growth, there is risk that the recovery in Canada's economy will be slow if the government does not take measures to safeguard economic growth.

In addition, the Economic and Monetary Union (“**EMU**”) of the European Union (“**EU**”) requires compliance with restrictions on inflation rates, deficits, interest rates, debt levels and fiscal and monetary controls, each of which may significantly affect every country in Europe. Decreasing imports or exports, changes in governmental or EMU regulations on trade, changes in the exchange rate of the euro, the default or threat of default by an EMU member country or its sovereign debt, and recessions in an EMU member country may have a significant adverse effect on the economies of EMU member countries and their trading partners, including some or all of the Europe financial sector countries. The European financial markets have recently experienced volatility and adverse trends due to concerns about rising government debt levels of several European countries, including Greece, Spain, Ireland, Italy and Portugal. A bailout package was put in effect by the EU for Greece and Ireland and recently Portugal has reached an agreement on a bailout package from the EU. Fears of debt contagion to other countries in the EU remain.

These events have adversely affected the exchange rate of the Euro and US Dollar and may continue to significantly affect the U.S. and every country in Europe, and as a result affect the volatility of the global financial markets and the economic growth in the Asia-Pacific region. The value of the investments of the Fund could be adversely affected by the worsening of general economic conditions globally or in certain individual markets.

## **RISKS RELATING TO HONG KONG**

### **Economic, political and legal developments**

The Net Asset Value is to be quoted in Hong Kong dollars. Accordingly, the Fund's operational results, financial position and prospects could be affected by economic, political and legal developments in Hong Kong. On 1 July, 1997, Hong Kong became a special administrative region of the PRC when the PRC resumed the exercise of sovereignty over Hong Kong. The basic policies of the PRC regarding Hong Kong are embodied in the Basic Law of Hong Kong, which provides that Hong Kong shall have a high degree of autonomy and enjoy executive, legislative and independent judicial powers, including that of final adjudication under the principle of “one country, two

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## **RISK FACTORS**

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systems". However, there is no assurance that economic, political and legal developments in Hong Kong will not be adversely affected as a result of the exercise of sovereignty by the PRC over Hong Kong or otherwise. If there are any material adverse changes in the general economic, political and legal development in Hong Kong, the Fund's operational results and financial position may be adversely affected.

### **Devaluation of the Hong Kong dollars**

The Hong Kong dollars has been pegged to the United States dollars since 1983. The Hong Kong government has repeatedly reaffirmed its commitment to this pegged exchange rate system. Accordingly, any depreciation in the United States dollars against other currencies will cause the Hong Kong dollars value of the Units to depreciate against such other currencies. In the event this pegged exchange rate system were to change, there is a risk that the Hong Kong dollars might devalue against the United States dollars and the corresponding value of the Units in United States dollars terms might be significantly reduced.

### **Liquidity Risk Management**

The Manager has established a liquidity risk management policy with the aim to enable it to identify, monitor, manage and mitigate the liquidity risks of the Fund and to facilitate the Fund's ability to support redemptions. Such policy, combined with the governance framework in place and 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 risk management policy takes into account the investment strategy; the underlying assets' liquidity (and whether they are priced at fair value); and the close-ended nature of the Fund.

The Manager's risk management function is independent from the investment portfolio management function and is responsible for performing monitoring of the Fund's liquidity risk in accordance with the Manager's liquidity risk management policy. Exceptions on liquidity risk related issues are escalated to the Manager's Risk Management Committee with appropriate actions properly documented.

The Manager may employ one or more tools to manage liquidity risks including, but not limited to:

- the Manager may impose a redemption levy as outlined in the section "Redemption Levy and Payment of Redemption Proceeds"; and/or
- the Manager may, with the prior consent of the Trustee and having regard to the best interests of the Holders, declare a suspension of the determination of the Net Asset Value of the Fund for the whole or any part of any period as outlined in the section "Suspension of calculation of the Net Asset Value".

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## **MANAGEMENT AND OPERATIONS**

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### **MANAGER**

HSBC Global Asset Management (Hong Kong) Limited, the Manager, is a company incorporated with limited liability in Hong Kong on 9 March, 1973. The Manager is a member of the HSBC Holdings Group, and is licensed by the SFC to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities as defined under the SFO. The Manager manages assets for a wide range of clients, including pension funds, institutions, charities and private clients.

The Manager is a QFI and has been granted a QFI licence by CSRC on 5 September, 2006 to make direct investments in A Shares and other financial instruments permitted under the Investment Regulations.

### **RESEARCH ADVISER**

HSBC Jintrust Fund Management Company Limited, the Research Adviser, is regulated by CSRC and has been appointed by the Manager to provide to it certain advisory and research services in relation to the Fund. The Research Adviser does not have investment discretion and shall be responsible to the Manager. The fees of the Research Adviser will be paid by the Manager.

### **TRUSTEE AND REGISTRAR**

HSBC Institutional Trust Services (Asia) Limited, the Trustee, is a company incorporated with limited liability in Hong Kong on 27 September, 1974. It is a member of the HSBC Holdings Group and a registered trust company under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong). The Trustee shall stand possessed of the assets of the Fund subject to the provisions of the Trust Deed. The Trustee may, however, appoint any person or persons to be custodian of such assets. The Trustee shall exercise reasonable skill, care and diligence in the selection, appointment and ongoing monitoring of its nominees, agents and delegates; and be satisfied that such nominees, agents and delegates retained remain suitably qualified and competent to provide the relevant service.

The Trustee and the Manager have appointed Computershare Hong Kong Investor Services Limited as the Registrar of the Fund.

### **QFI CUSTODIAN**

Bank of Communications Co., Ltd., the QFI Custodian, is responsible for safekeeping of the Fund's assets in the PRC. It is a joint stock company incorporated in the PRC with limited liability and is a licensed bank in the PRC.



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## REDEMPTION AND TRADING OF UNITS

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### POSSIBLE REDEMPTION OF UNITS

#### No right to demand redemption by Unitholders

No Unitholders shall have any right to demand redemption of the Units owned by them unless otherwise permitted under the Trust Deed.

#### Possible Recurring Redemption Offer

The Manager has issued a circular to Unitholders on 17 November, 2015 ("**Circular**") in relation to change of investment objective, one-off redemption offer, recurring redemption offer, changes to the Trust Deed to effect the Recurring Redemption Offer and notice of general meeting. The independent Unitholders have approved on 7 January, 2016, amongst others, the resolutions regarding the Recurring Redemption Offer and changes to the Trust Deed to effect the Recurring Redemption Offer.

**Unitholders should note that a decrease in the Net Asset Value of the Fund may not necessarily trigger a Recurring Redemption Offer (for instance, where such decrease does not meet the threshold of discount referred to under (1) in the "Conditions of the Recurring Redemption Offer" below). Unitholders should note that the Manager shall not be obliged to offer any Recurring Redemption Offer.**

**Unitholders are strongly advised to refer to the information contained in the Circular including the "Letter from the Manager" and the advice from the independent financial adviser in the "Letter from the Independent Financial Adviser", the risk factors associated with any Recurring Redemption Offer on pages 29 to 31 of this Offering Circular and in the relevant circular in respect of each Recurring Redemption Offer for associated details. If Unitholders are in any doubt as to any aspect of the Recurring Redemption Offer as and when it is made or as to the action to be taken, they should seek independent professional advice.**

With respect to each Recurring Redemption Offer, the Fund will make enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the Recurring Redemption Offer in relation to any Overseas Unitholders and determine whether the Recurring Redemption Offer will be extended to all the overseas Unitholders.

#### *Conditions of the Recurring Redemption Offer*

The Manager may, subject to the conditions under (1) to (8) below, offer a right to all Unitholders to redeem part or all of their holdings in the Fund (the "**Recurring Redemption Offer**"), subject to a redemption levy, as the Manager determines at its discretion taking into account the best interests of the Unitholders at the Net Asset Value of the Units being redeemed (calculated using the relevant market closing price of the underlying investments of the Fund and the Fund's applicable operating expenses accrued or incurred to date on the relevant value day) on the relevant redemption day:

1. the Fund must be trading at a discount of its Net Asset Value of 20% (daily average) or more for three consecutive months;
2. the redemption offer must only be made in the best interests of the Unitholders;

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## REDEMPTION AND TRADING OF UNITS

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3. there is no material adverse impact to the Fund;
4. the Manager must comply with the principles and rules under the Code on Share Buy-Backs ("**Buy-Back Code**") as if they were applicable to the Fund (including but not limited to all relevant timing and disclosure requirements under the Buy-Back Code), the SFC Products Handbook and all other applicable codes, rules, regulations and laws (together "**Applicable Regulations**"), with the only following exceptions:
  - (a) no independent advice by an independent board committee and/or independent financial adviser will be required in relation to any redemption offer made following the approval of the current Recurring Redemption Offer proposal at the Extraordinary General Meeting;
  - (b) where the redemption proceeds cannot be repatriated from the Mainland due to legal or regulatory requirements beyond the control of the Manager, the redemption proceeds payment period may be extended beyond time limits stipulated in the Applicable Regulations. In such case, the Manager must keep proper records to demonstrate and justify this and keep Unitholders and the SFC properly and promptly informed. In any event, the redemption proceeds must be paid to Unitholders as soon as possible after the receipt of the proceeds by the Fund;
5. in considering whether to proceed with a redemption offer, the Manager must take into account of all relevant prevailing market conditions (such as market liquidity, the percentage of stocks held by the Fund which have been suspended from trading and other relevant regulatory requirements) and must be reasonably satisfied that the redemption proceeds can be paid to Unitholders in accordance with the time limits stipulated in the Applicable Regulations;
6. there is **no minimum number of redemption offer** to be made in a calendar year and the maximum number for each calendar year shall not exceed three;
7. the aggregate redemption of all Unitholders to be no more than 20% of the total outstanding number of Units as at the relevant lodgement date of each Recurring Redemption Offer; and
8. Independent Unitholders may by Extraordinary Resolution at a general meeting terminate the Manager's entitlement to make any further redemption offer under the Recurring Redemption Offer.

Each Recurring Redemption Offer will be subject to applicable regulatory approvals but will not be subject to any further approval of the Unitholders nor the advice of the independent financial adviser.

The Manager will despatch a circular to all Unitholders prior to any Recurring Redemption Offer including the timing, procedures and limits of the Recurring Redemption Offer. All redeemed Units will be cancelled.

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## REDEMPTION AND TRADING OF UNITS

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### *Redemption Levy and Payment of Redemption Proceeds*

The redemption levy, which is up to 2% of the Net Asset Value of the Units being redeemed (i.e. the redemption price), incorporates commission, stamp duty, transaction cost and total market impact of implementation (i.e. the price difference during the order implementation between the execution price and the price at the time of valuation) will be deducted from the redemption price and will be retained by the Fund for the benefit of the Fund. The actual level of the redemption levy will be determined by the Manager according to the Manager's estimation of the above-mentioned commission, stamp duty, transaction cost and total market impact of implementation on the relevant redemption day.

Each redeeming Unitholder will bear the same percentage of redemption levy, namely, the same percentage of the Net Asset Value of the Units being redeemed. The redemption levy will be announced together with the Net Asset Value of the Fund as of the relevant value day.

Any Recurring Redemption Offer, when offered to the Unitholders by the Manager, will be satisfied by the disposition by the Manager of assets of the Fund. The Manager confirms that sufficient liquid financial resources are available to the Fund to implement and to satisfy the Fund's obligations in respect of the Recurring Redemption Offer in full.

**The Manager will use its best endeavours to repatriate and distribute redemption proceeds payable to the Unitholders within two months after the relevant redemption day. However, there is no assurance that redemption proceeds payable out of the Fund's assets in the PRC will be distributed within two months. Investors should refer to the risk factor headed under "Uncertainty on the payment date of the redemption proceeds" on page 30 of this Offering Circular. The Fund will also use its assets outside PRC to settle part of the redemption proceeds and that part of the redemption proceeds payable out of the assets of the Fund outside the PRC will be payable within 10 Business Days from the relevant redemption day. As such, the Fund may need to pay the redemption proceeds to Unitholders by installments and the Fund will pay all the redemption proceeds to the Unitholders as soon as possible after receipt of the proceeds by the Fund.**

### *Procedures with respect to Recurring Redemption Offer*

Any Recurring Redemption Offer, when offered to the Unitholders by the Manager, shall occur on the relevant redemption day. Unitholders who wish to accept the Recurring Redemption Offer must provide completed redemption requests to the Registrar no later than the time specified in the circular with respect to such Recurring Redemption Offer on the relevant lodgement date; provided that the Unitholders are only entitled to make a redemption request under the Recurring Redemption Offer with respect to the Units they hold as of the relevant lodgement date. Unitholders that are interested in exercising their rights under the Recurring Redemption Offer shall be required to return their redemption requests forms together with the relevant certificate(s) and/ or transfer receipt(s) and / or any other document(s) of title (and / or any satisfactory indemnity or indemnities required in respect thereof) for the number of Units in respect of which Unitholders intend to redeem, by post or by hand to the Registrar by no later than the time specified in the circular with respect to such Recurring Redemption Offer on the relevant lodgement date. No further action shall be required from the Unitholders that elect to continue to hold onto their entire holdings of Units in the Fund. Unitholders that have lost the certificates representing their Units should contact the Registrar and follow the procedure as required by the Registrar.

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## REDEMPTION AND TRADING OF UNITS

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### TRADING OF UNITS

The Units can be bought and sold on the Stock Exchange in board lots of 500 Units. When buying or selling the Units on the Stock Exchange, a Unitholder will incur customary brokerage commissions, stamp duties and other levies imposed by the SFC and/or the Stock Exchange as set out in the section headed "Charges and expenses".

### COMPULSORY TRANSFER OR REDEMPTION OF UNITS

Upon notice that any of the Units are held by a Non-eligible Investor, the Manager, at its absolute discretion, may give notice to the Non-eligible Investor requiring him to transfer such Units to a person whose holding would be permissible as described in this Offering Circular and as permitted under the Trust Deed or may give a request in writing for the redemption of such Units.

### GENERAL MANDATE TO REPURCHASE UNITS

The Manager may, from time to time, repurchase the Units subject to the requirements under rule 10.06 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with necessary changes being made, as if the provisions therein were applicable to the Fund. These include, but are not limited to, the requirement to seek the Holder's approval by way of an ordinary resolution at a Holder's general meeting to grant a general mandate to the Manager to repurchase Units on-market on behalf of the Fund, the dealing restrictions, the restrictions on subsequent issues, the reporting requirements and status of the purchased Units. In particular, the Manager will not repurchase any Unit on-market at a price exceeding (a) by 5% or more than the average closing market price of the Units for the 5 preceding trading days on which the Units were traded on the Stock Exchange of Hong Kong Limited; or (b) the Net Asset Value per unit of the Fund on the preceding trading day, whichever is lower.

Repurchase under the general mandate will only be made when the Manager believes that such repurchase will benefit the Fund and the Holders as a whole. Such Repurchase will be made out of funds which are legally available for the purpose in accordance with the Trust Deed and the laws of Hong Kong. It will be funded from the selling down of the Fund's assets (other than the A-shares which are subject to lock-up restrictions under the PRC regulations) and will not be funded from borrowings.

The Manager is permitted to repurchase Units in accordance with all applicable laws, rules, regulations, codes or guidelines issued by the SFC or any relevant governmental or regulatory authority.

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## LISTING

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The Units are listed on the Stock Exchange and have been accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the Units on the Stock Exchange. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second Business Day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Fund shall have in place measure(s) and mechanism(s) which are fair and equitable to the investors to address any prolonged significant discount of its secondary trading price on the Stock Exchange to its Net Asset Value. For details on the Recurring Redemption Offer, please refer to the section "Redemption and Trading of Units" under the sub-heading "Possible Recurring Redemption Offer".

In the event that the Manager in future determines to apply for the withdrawal of SFC authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange where the Net Asset Value does not fall below HK\$400 million, it must first seek the prior approval of the Unitholders. Any proposal to apply for the withdrawal of SFC authorisation and/or the de-listing must be approved by an Extraordinary Resolution passed by the Unitholders in a general meeting of the Unitholders.

Notwithstanding the foregoing, if the Net Asset Value at any time falls below HK\$400 million after three (3) years from the Listing Date, the Manager may in their absolute discretion terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) without any approval of the Unitholders by giving at least three (3) months' prior written notice. For the avoidance of doubt, if the Net Asset Value at any time falls below HK\$400 million after three (3) years from the Listing Date, and the Manager does not terminate the Fund but proposes to apply for the withdrawal of the SFC's authorisation of the Fund and/or the de-listing of the Fund from the Stock Exchange, any such proposal must still be approved by an Extraordinary Resolution passed by the Unitholders in a general meeting of the Unitholders.

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## **CALCULATION OF THE NET ASSET VALUE**

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### **CALCULATION OF THE NET ASSET VALUE**

The Trust Deed provides for the Net Asset Value per Unit to be determined as at the Valuation Point on the Valuation Day. However, the Trust Deed provides that the value of Units may be calculated on such other Business Day as the Manager may determine with the consent of the Trustee provided that not less than one (1) calendar month's prior notice shall be given to the Unitholders prior to change. The Net Asset Value per Unit is calculated by valuing the assets of the Fund, deducting the liabilities of the Fund, and dividing the result by the number of Units in issue.

The redemption price of a Unit on each Redemption Day shall be the amount equal to the Net Asset Value (calculated as provided in this Schedule) of one Unit. For details on the redemption price for the redemption made under the recurring redemption offer, please refer to the Circular issued by the Fund on 12 June, 2018 and the Announcement issued by the Fund on 25 July, 2018.

The Trust Deed permits the Manager, in consultation with the Trustee, to request the Trustee to adjust the value of any investment or permit some other method of valuation to be used if the Manager considers that such adjustment or other method of valuation is required to reflect more fairly the value of the relevant investment.

The Manager has established appropriate policies and procedures for independent valuation of each type of assets held by the Fund in consultation with the Trustee. Such policies and procedures seek to detect, prevent and correct pricing errors and are consistently applied. The Manager reviews the valuation policies and procedures on a periodic basis to ensure their continued appropriateness and effective implementation. The valuation policies, procedures and process are reviewed (at least annually) by a competent and functionally-independent party such as a qualified independent third party or a person performing an independent audit function. The review of valuation policies, procedures and process includes testing the valuation procedures by which the Fund assets are valued. The Manager exercises due skill, care and diligence in the selection of a competent and functionally-independent party.

The Manager complies with all applicable legal and regulatory requirements in respect of the valuation of the Fund assets.

### **SUSPENSION OF CALCULATION OF THE NET ASSET VALUE**

The Manager may, with the prior consent of the Trustee and having regard to the best interests of the Holders, declare a suspension of the determination of the Net Asset Value of the Fund for the whole or any part of any period during which:

- (a) any securities market, commodities market or futures exchange on which a significant portion of the investments of the Fund is listed, quoted, traded or dealt in is closed (other than customary weekend and holiday closing) or trading in any such exchange or market is restricted or suspended; or
- (b) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to dispose of Investments held or contracted for the account of the Fund or as a result of which such disposal would be materially prejudicial to the Unitholders; or

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## CALCULATION OF THE NET ASSET VALUE

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- (c) when a breakdown occurs in any of the means normally employed in ascertaining the value of investments or the Net Asset Value of the Fund or the Net Asset Value per Unit or when for any other reason the value of any of the investments or other assets of the Fund or the Net Asset Value of the Fund or the Net Asset Value per Unit cannot in the opinion of the Manager reasonably or fairly be ascertained; or
- (d) during which the Fund is unable to repatriate funds for the purpose of making payments on the redemption of Units by the Manager or during which any transfer of funds involved in the realisation or acquisition of investments or payments due on redemption of Units cannot in the opinion of the Manager be effected at normal rates of exchange; or
- (e) when the issue, redemption by the Manager or transfer of Units would result in the violation of any applicable law.

Such suspension shall take effect forthwith upon the declaration thereof and thereafter there shall be no determination of the Net Asset Value of the 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 under the Trust Deed shall exist.

Whenever the Manager shall declare such a suspension it shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice in one Hong Kong daily English language newspaper and one Hong Kong daily Chinese language newspaper, if applicable rules so require.

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## POTENTIAL CONFLICTS OF INTEREST

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The Manager or its associated companies may:

- (a) contract or enter into any financial, banking, insurance or other transaction with one another, the Unitholders, or any corporation or body any of whose securities, financial instruments or investment products form part of the assets of the Fund and be interested in any such contract or transaction;
- (b) invest in and deal with securities or any property of the kind included in the property of the Fund for their respective individual accounts or for the account of a third party; and
- (c) enter into business relationships with the Fund, under which the Manager or its associated companies may act as service providers for the Fund and be compensated by the Fund for the services provided, or may act as counterparties in any transactions in relation to the Fund. Such transactions must be executed at arm's length and in the best interests of the Unitholders and, where applicable, may only be made with the prior written consent of the Trustee.

It is possible that the Manager, or Investment Delegates as may be appointed by the Manager from time to time may, in the course of their business, have potential conflicts of interests in relation to the Fund and may promote, manage, advise or otherwise be involved in any other funds or investment companies while they act as the Manager or Investment Delegate of the Fund. For instance, associated companies or directors of the Manager or Investment Delegates may act as underwriter(s) for securities sold to the Fund or provide investment management and/or advisory services to other clients (including other funds).

The Manager or its associated companies will be free to render services similar to those which the Manager is providing to the Fund or to other clients (including other funds).

The Manager or Investment Delegates as may be appointed by the Manager are required to devote such time and effort to the Fund's business as is necessary to promote the interests of the Fund. Conflicts, however, may arise (i) in the allocation of resources and attention by the Manager or Investment Delegates between the Fund and other funds managed or advised by, and/ or other clients of, the Manager or Investment Delegates; and (ii) in the allocation of investment opportunities identified by the Manager or Investment Delegates between the Fund and other funds managed or advised by, and/or other clients of, the Manager or Investment Delegates.

At present, the Manager or its associated companies are also the investment manager or investment adviser of a number of funds whose investment objectives, investment approach and investment restrictions are similar to those of the Fund. The Manager is aware of the potential conflicts of interests in allocating investment opportunities between the Fund and such other funds. The Manager has therefore developed internal systems and controls to ensure that all the funds and accounts which it or its associated companies manage, including the Fund, are treated fairly, after considering whether or not the acquisition or disposition of investment is economical to a particular fund or account and the objectives, restrictions and strategies of such fund or account.



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## POTENTIAL CONFLICTS OF INTEREST

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The Manager may, in accordance with applicable law and regulation, effect agency cross transactions where both the sale and purchase of an investment are effected for clients (including the Fund on the one hand) of the Manager and/or its associated companies provided that the sale and purchase decisions are in the best interests of both clients, permitted within the investment guidelines/ objectives of both clients and the transactions are executed on normal commercial terms negotiated at arm's length at current market value, in the best interests of the Unitholders and at the best price reasonably obtainable by the Fund having regard to the kind, size and time of the transaction.

The Manager or its associated companies may enter into investments for the account of the Fund as agent for the Trustee provided that they shall account for all rebates of brokerage and commission which they may derive from or in connection with any such purchase or sale to the Fund on whose behalf such transaction was effected.

Except in the case of a purchase for the account of the Fund of any unit, share or other interest in a Collective Investment Scheme managed by the Manager or any connected person or associate of the Manager, neither the Manager nor any connected person shall without the written approval of the Trustee, as principal sell or deal in the sale of investments to the Trustee for the account of the Fund or otherwise deal as principal with the Fund.

In circumstances where there may be a conflict of interest, the Manager will have regard to its obligations to act as investment manager in the interests of the Fund so far as practicable, and its obligations to other clients when undertaking any investments. In the event that such conflicts do arise, the Manager will use its best efforts to resolve such conflicts fairly.

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## **DISTRIBUTIONS**

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The Fund's financial year shall be the twelve-month period from 1 April to 31 March of each calendar year. In view of the Fund's investment objective to achieve capital growth, it is not envisaged that any income or gain derived from the investments of the Fund will be distributed.

Notwithstanding the aforesaid, the Manager may from time to time determine the amount of distribution and the distribution interval. The Manager may also determine at its absolute discretion that no distribution shall be made in respect of any distribution interval. The cost of remittance and other expenses in relation to the distribution payments will be borne by the relevant Unitholders.

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## **CHARGES AND EXPENSES**

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### **MANAGER**

The Manager is entitled to receive a monthly management fee currently at the rate of 1.5% per annum of the Net Asset Value of the Fund payable monthly in arrears.

Any increase in the rate of monthly management fee (up to or towards the permitted maximum rate of 2.5% per annum of the Net Asset Value of the Fund) will only be implemented after giving at least three (3) months' notice to affected Unitholders.

The fees of the Research Adviser will be paid by the Manager.

### **TRUSTEE AND REGISTRAR**

The Trustee is entitled to receive in arrears a monthly fee at the rate of 0.07% per annum on the Net Asset Value of the Fund calculated and accrued as at each Valuation Day and payable in arrears on a monthly basis.

The Trustee and the Manager have appointed Computershare Hong Kong Investor Services Limited as the Registrar of the Fund. The fees and charges of the Registrar shall be borne by the Fund.

### **QFI CUSTODIAN**

The Fund is responsible for the custody fee of 0.1% per annum of the Net Asset Value of the assets held by the QFI Custodian as determined by the QFI Custodian (based on the actual number of calendar days in a year).

### **OTHER CHARGES AND EXPENSES**

The preliminary establishment expenses of the Fund have been fully amortised.

The Fund will bear the cost of (a) all fees and expenses relating to any repurchase and/or redemption of Units, (b) all stamp and other duties, taxes, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges, transfer fees and expenses, registration fees and expenses, such transactional fees of the Trustee as may be agreed by the Manager in relation to transactions involving the whole or any part of the Fund, custodian, co-custodian, 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 realisation of any investment of the Fund 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 of either of them 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), (c) the fees and expenses of the Auditors, (d) the fees and expenses of the Registrar, any administrator and any receiving agent (including those of the Trustee which are agreed by the Manager, the Manager or any connected person where the Trustee, the Manager or any connected person is also acting as Registrar, administrator or receiving agent), (e) fees charged by the Trustee in connection with calculating the Net Asset Value of the Fund and the issue and redemption prices of Units and the preparation of periodic accounts, (f) expenses in connection with the management and trusteeship of the Fund authorised by the Trust Deed to be payable out of the Fund, (g) all legal fees and charges (including the fees and charges of the legal counsel and charges and expenses incurred in conducting legal proceedings or applying to any court for any purposes related to the Fund) and other professional fees and charges (including but not

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## CHARGES AND EXPENSES

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limited to secretarial fees and charges and professional fees and charges in relation to agreeing and/or contesting taxation liabilities or recoveries to be paid out of or into the Fund) incurred by the Manager or the Trustee in connection with the Fund, (h) out-of-pocket expenses incurred by the Trustee wholly and exclusively in the performance of its duties under the Trust Deed, (i) the expenses incurred by the Manager and the Trustee in establishing the Fund and costs in connection with the initial issue of Units (including but not limited to the fees and expenses of any underwriters and of any legal counsels appointed by the underwriters) (which expenses shall be written off immediately on the first Valuation Day of the Fund), (j) the expenses of or incidental to the preparation of deeds supplemental to the Trust Deed or any agreement in connection with the Fund, (k) the expenses of holding meetings of Unitholders and of giving notices to Unitholders, (l) the costs and expenses of obtaining and maintaining a listing for the Units on any stock exchange or exchanges selected by the Manager and approved by the Trustee and/or the authorisation or other official approval or sanction of the Fund under the SFO or any law or regulation in any part of the world and approved by the Trustee or in complying with any undertaking given, or agreement entered into in connection with, or any rules governing such listing, authorisation, approval or sanction, (m) the fees and expenses of the Trustee or any connected person of the Trustee which are agreed with the Manager in connection with the time and resources incurred by the Trustee or such connected person in calculating any fees payable to the Manager or any rebates thereof (if applicable), or in reviewing and producing documentation in connection with the operations of the Fund, including the filing of annual returns and other statutory or regulatory information required to be filed with any regulatory or other authority having jurisdiction over the Fund, (n) the fees and expenses of the Trustee in terminating the Fund and for providing any additional services as agreed by the Manager, (o) bank charges incurred in making payments to Unitholders pursuant to the Trust Deed, (p) costs involved in respect of the calculation and publication in newspapers in Hong Kong and elsewhere of the Net Asset Value per Unit and/or of any notice, circular, announcement or publication of the Fund, (q) fees and expenses in connection with depositing and holding Units in CCASS, (r) charges and expenses involved in insuring the assets and property of the Fund, (s) without prejudice to the generality of the foregoing, all costs of preparing, printing and distributing all statements, accounts and reports pursuant to the provisions of the Trust Deed (including the Auditors' fees, the fees of appointing any accountants and the Trustee's fees in relation thereto), the expenses of preparing and printing any offering document issued by the Manager in connection with the offer of Units, as the same may be updated and/or amended from time to time, and any other expenses, deemed by the Manager, after consulting the Auditors, to have been incurred in compliance with or connection with any change in or introduction of any law or regulation or directive (whether or not having the force of law) of any governmental or other regulatory authority or with the provisions of any code relating to unit trusts as defined in the SFO (provided that the Trustee shall be responsible for any costs incurred in connection with ensuring compliance with Chapter 4.1 Note 2(ii) of the SFC's Code on Unit Trusts and Mutual Funds), (t) all other reasonable costs, charges and expenses which in the opinion of the Trustee and the Manager are properly incurred in the administration of the Fund and pursuant to the performance of their respective duties under the Trust Deed, (u) all fees and expenses incurred in connection with the retirement or removal of the Manager, the Trustee, the Auditors or any entity providing services to the Fund, or the appointment of a new manager, a new trustee, new auditors or other new service providers providing services to the Fund, and (v) all such charges, costs, expenses and disbursements as under the general law the Trustee is entitled to charge to the Fund.

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## **CHARGES AND EXPENSES**

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### **CASH REBATES AND SOFT COMMISSIONS**

The Manager is responsible for selecting brokers and dealers through whom transactions for the account of the Fund are to be executed (which may include the Manager and its connected persons). Neither the Manager nor any other company within the Manager's group will receive cash commissions or other rebates from brokers or dealers in respect of transactions for the account of the Fund. The Manager or any of its connected persons reserves the right to effect transactions by or through the agency of another person (or person connected with him) with whom it has an arrangement under which that party will from time to time provide it with or procure for it goods, services or other benefits (such as research and advisory services, portfolio analysis or computer hardware and software incidental to such goods or services) the nature of which is such that their provision is of demonstrable benefit to the Unitholders as a whole and for which no direct payment is made but instead the Manager or any of its connected persons undertake to place business with that party, provided the availability of such soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

Periodic disclosure is made in the Fund's annual report in the form of a statement describing the soft dollar policies and practices of the Manager or the Investment Delegate, including a description of the goods and services received by them.

### **FEES PAYABLE BY THE UNITHOLDERS**

Each Unitholder who trades its Units on the Stock Exchange will be required to pay the SFC transaction levy of 0.0027%, the Stock Exchange trading fee of 0.005%, and a stamp duty of 0.1%, of the aggregate price for the Units concerned, on both the buyer and the seller. The Unitholder also needs to bear all customary brokerage commissions in relation to the transaction.

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## **TAXATION AND REGULATORY REQUIREMENTS**

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Investors should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on advice received by the Fund regarding the law and practice in force in Hong Kong, the PRC and the United States at the date of this Offering Circular. Investors should be aware that levels and bases of taxation are subject to change and that the value of any relief from taxation depends upon the individual circumstances of the taxpayer.

### **HONG KONG**

The Fund, as a collective investment scheme authorised under Section 104 of the SFO, is exempted from Hong Kong profits tax.

No tax will be payable by the Unitholders in Hong Kong in respect of dividends or other distributions of the Fund or in respect of any capital gains arising on a sale or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on in Hong Kong.

#### **Stamp Duty**

The redemption of Units by a Unitholder will not attract Hong Kong ad valorem or fixed stamp duty.

The trading of Hong Kong stock (including the underlying H shares and shares issued by red chip companies) by the Fund to effect the Recurring Redemption Offer is subject to Hong Kong stamp duty. The Fund and the counterparty will each be liable to Hong Kong stamp duty at the current rate of 0.1% of the higher of the consideration paid or the market value of the units transferred. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of Units.

#### **Estate Duty**

Hong Kong estate duty was abolished effective from 11 February, 2006. No Hong Kong estate duty is payable in relation to the Units owned by a Unitholder upon his death.

### **THE PRC**

The information below is a summary of certain areas of PRC taxation which are likely to be relevant to the Fund and the Unitholders and should not be taken as a definitive, authoritative or comprehensive statement of the relevant matter. In particular, there are various other taxes, duties, levies and charges which are generally of less significance but may nevertheless be applicable to the Fund and the Unitholders. The tax rules applicable to the previous QFII and RQFII schemes will equally apply to the combined QFI regime before any new rules or clarifications are released by the MOF and/or the STA.

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## TAXATION AND REGULATORY REQUIREMENTS

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### **Withholding tax on dividends and interests for trading A Shares by QFIs**

Pursuant to the CIT Law and its Implementation Rules, a foreign enterprise that does not have any establishment or place of business in China is subject to a withholding income tax at the rate of 10% for the interest, royalty, rental and other income (including capital gain) earned directly from sources in the PRC.

Pursuant to Guoshuihan [2009] No. 47 dated 23 January, 2009 issued by STA, dividends and interest payment to QFIs derived from the PRC are subject to a 10% withholding tax. However, QFIs may apply to the relevant tax authorities for tax relief in respect of any dividends and interest payments derived in the PRC under any applicable bilateral treaties / arrangements on the avoidance of double taxation signed between the PRC and their resident jurisdictions.

Pursuant to Guoshuihan [2008] No. 897 and Guoshuihan [2009] No. 394, any dividend paid with respect to 2008 or a subsequent year and on listed shares to a non-resident company by a PRC resident company is subject to 10% withholding tax.

Pursuant to Guoshuihan [2009] No. 82, there is a potential risk for a red chip company to be deemed as a PRC resident company if it has a place of effective management in China. In such case, the dividend payout with respect to 2008 and subsequent years would be subject to 10% withholding tax. Generally, the relevant red chip company will make a separate announcement as to whether it will withhold the tax.

### **Enterprise income tax on equity trading gains for QFIs**

On 14 November, 2014, MOF, STA and CSRC have jointly promulgated the *Circular Concerning the Temporary Exemption of the Enterprise Income Tax for Gains Earned by QFII and RQFII from Transfer of Domestic Shares and Other Equity Interest Investment in China* (Caishui [2014] No. 79) (the "**Circular 79**"). According to the Circular 79, amongst other things: (i) enterprise income tax shall be exempt on a temporary basis on the gains earned by QFIs from the transfer of domestic shares and other equity interest investment in China with effect from 17 November, 2014; and (ii) enterprise income tax shall be imposed on such gains earned by QFIs before 17 November, 2014 in accordance with the tax laws. This circular is applicable to QFIs without any establishment or place of business in China or the incomes derived by the QFIs that are not effectively connected with their establishment or place of business in China.

As a result of the promulgation of the Circular 79, the Manager (after taking professional tax advice) had decided on the following changes to the tax provision practice of the Fund:

- (i) the Fund has ceased withholding 10% of unrealized gains on its investments in A shares and generally in other securities linked to A shares as a tax provision from 14 November, 2014 (the last valuation day before 17 November, 2014) on the basis that any gains subsequently realized from 17 November, 2014 onwards will be temporarily exempt from enterprise income tax;
- (ii) the amount of tax provision for unrealized gains on the Fund's investments in A Shares and generally in other securities linked to A shares withheld by the Fund as a tax provision up to 14 November, 2014 has been released to the Fund; and
- (iii) the Fund has ceased to withhold 10% of realized gains on its investments in A Shares and generally in other securities linked to A Shares as a tax provision from 17 November, 2014.

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## TAXATION AND REGULATORY REQUIREMENTS

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The Manager (after taking professional tax advice) may, at its discretion make modification to the tax provision policy of the Fund based on new developments and interpretation of the relevant regulations. Such provision (if made) may be more than or less than the Fund's actual tax liabilities and will be reflected in the Net Asset Value of the Fund at the time of debit or release of such provision and thus will only impact on Units which remain in the Fund at the time of debit or release of such provision. Units which are sold/redeemed prior to the time of debit of such provision will not be affected by reason of any insufficiency of the tax provision. Likewise, such Units will not benefit from any release of excess tax provisions. Investors may be advantaged or disadvantaged depending upon how the gains and income of the Fund will ultimately be taxed and when the investors purchased/subscribed and/or sold/redeemed the Units of the Fund. Investors should note that no Unitholders who have sold/redeemed their Units in the Fund before the release of any excess tax provision shall be entitled to claim in whatsoever form any part of the tax provision or withholding amounts released to the Fund, which amount will be reflected in the Net Asset Value of Units of the Fund.

### **Stamp duty for trading A Shares by QFIs**

Pursuant to the *Tentative Regulations of the PRC Stamp Duty*, stamp duty is levied on the execution or receipt within the territory of China of certain documents, including contracts for the transfer of equity interests and the sale of A Shares and B Shares on stock exchanges.

According to the latest notice issued by MOF and STA, the trading of A Shares and B Shares each is subject to 0.1% stamp duty of the total proceeds but only on the selling side.

### **Business tax and value-added tax for trading A Shares by QFIs**

Pursuant to the *Circular on Business Tax Policies for Qualified Foreign Institutional Investors* (Caishui [2005] No. 155) issued jointly by STA and MOF in December 2005, gains derived by QFIIs from securities trading carried out by the PRC Brokers are exempted from business tax in the PRC.

With effect from 1 May, 2016, all industries formerly subject to business tax will transition to value-added tax pursuant to the *Circular on Overall Replacement of Business Tax by Value-added Tax on A Pilot Basis* (Caishui [2016] No. 36) jointly issued by MOF and STA on 24 March, 2016 ("**Circular 36**"). Circular 36 provides for a 6% value-added tax rate for financial services, replacing the 5% tax rate formerly applied under the business tax regime. With the transition of business tax to value-added tax, exemption was extended to value-added tax for trading PRC securities by QFIIs in China under Circular 36. In addition, the *Supplemental Notice on Value-added Tax Policies for Matters Including Financial Transactions between Financial Institutions* (Caishui [2016] No. 70) jointly issued by MOF and STA on 30 June, 2016 provides the same VAT exemption on RQFII's securities trading through entrusted domestic company.

### **Stock Connect taxation policy for Hong Kong market investors**

Pursuant to Circular 36, the *Circular on the Taxation Policy of the Pilot Programme of the Shanghai-Hong Kong Stock Connect Scheme* (Caishui [2014] No. 81) dated 31 October, 2014 and the *Circular on the Taxation Policy of the Pilot Programme of the Shenzhen-Hong Kong Stock Connect Scheme* (Caishui [2016] No. 127) dated 5 November, 2016, in respect of trading of A Shares through Stock Connect:

- enterprise income tax shall be exempt on a temporary basis on the gains earned by Hong Kong market investors from the trading of A Shares listed on SSE and SZSE;



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## TAXATION AND REGULATORY REQUIREMENTS

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- Hong Kong market investors are required to pay tax on dividend and bonus of A Shares at a standard rate of 10%, which will be withheld and paid to the relevant PRC tax authority by the respective listed companies. Where there is an applicable tax treaty/arrangement prescribing for a lower tax rate, the investor may apply for refund from the competent tax authority;
- Gains derived from trading A Shares should be temporarily exempt from business tax (before 1 May, 2016) and value-added tax (after 1 May, 2016); and
- Hong Kong market investors trading through Stock Connect are required to pay stamp duty arising from the sale and purchase of A Shares in accordance with the prevailing PRC taxation regulations (currently, 0.1% on the sellers). Stock-guaranteed short selling involved stock borrowing and return is temporarily exempt from stamp duty.

### THE UNITED STATES

**United States Treasury Circular 230 Notice:** To ensure compliance with US Treasury Circular 230, prospective investors are hereby notified that: (a) any discussion of US federal tax issues contained or referred to in this Offering Circular or any document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the US Internal Revenue Code; (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

#### United States Tax Considerations

This section describes certain United States federal income tax consequences of the ownership and disposition of the Units. It applies to an investor only if such investor acquires the Units in this offering and such investor holds them as capital assets for tax purposes. This section does not apply to an investor if such investor is a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organisation;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of the Fund's voting stock;
- a person that holds the Units as part of a straddle or a hedging or conversion transaction; or
- a US holder (as defined below) whose functional currency is not the United States dollars.

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## TAXATION AND REGULATORY REQUIREMENTS

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This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed US Treasury regulations, published rulings and other administrative pronouncements and court decisions in existence on the date hereof. These laws are subject to change, possibly on a retroactive basis.

A US holder is a beneficial owner of the Units that is:

- a citizen or resident of the United States;
- a US domestic corporation;
- a US domestic partnership;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorised to control all substantial decisions of the trust.

A "non-US holder" is a beneficial owner of Units that is not a United States person for United States federal income tax purposes.

A prospective investor should consult its own tax adviser regarding the United States federal, state and local and other tax consequences of acquiring, owning and disposing of Units in its particular circumstances.

### ***US Federal Income Taxation of US Holders***

#### ***Passive Foreign Investment Company Rules***

As the Fund expects 50% or more of its gross asset value will constitute passive assets, the Fund expects that its Units will be treated as stock of a passive foreign investment company ("PFIC") every year for US federal income tax purposes, and except as otherwise stated, the remainder of this discussion so assumes. The conclusion is a factual determination made annually.

US holders of stocks of a PFIC must file US Internal Revenue Service Form 8621 every year in which they continue to hold such Units.

If an investor is a US holder, such investor will be subject to the special PFIC tax rules or, if such investor makes a mark-to-market election, the mark-to-market rules, or, if such investor makes a Qualified Electing Fund ("QEF") election, the QEF rules.

#### ***Special PFIC Tax Rules***

This subsection applies to an investor if such investor is a US holder and does not make a QEF or mark-to-market election. An investor will be subject to special PFIC tax rules with respect to:

- any gain such investor realises on the sale or other disposition of such investor's Units (including the pledging of its Units as security for a loan) and

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## TAXATION AND REGULATORY REQUIREMENTS

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- any excess distribution that the Fund makes to such investor (generally, any distributions to such investor during a single taxable year that are greater than 125% of the average annual distributions received by him in respect of the Units during the three preceding taxable years or, if shorter, such investor's holding period for the Units).

An investor will be entitled, however, to increase its basis in the Units it directly owns to reflect the gain realised upon such distributions, or dispositions. Moreover, an investor will not be taxed when the Fund distributes to it the income that it already included in income for tax purposes.

Under these special PFIC tax rules:

- the gain or excess distribution will be allocated ratably over the holding period for the Units,
- the amount allocated to the taxable year in which such investor realised the gain or excess distribution and any taxable year before the Fund became a PFIC will be taxed as ordinary income,
- the amount allocated to each other prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such prior year.

Amounts subject to these special PFIC tax rules will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. In addition, dividends that an investor receives from the Fund will not constitute qualified dividend income to the investor if the Fund is a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that an investor receives that do not constitute qualified dividend income are not eligible for taxation at the 20% maximum rate applicable to qualified dividend income even if the dividend does not constitute an excess distribution. Instead, an investor must include the gross amount of any such dividend paid by the Fund out of the Fund's accumulated earnings and profits (as determined for United States federal income tax purposes) in the investor's gross income, and it will be subject to tax at rates applicable to ordinary income.

If an investor receives distributions that are not subject to the special PFIC tax rules (i.e., its Units are not treated as stock of a PFIC), it must include in its gross income the gross amount of any dividend paid by the Fund out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). The dividend is ordinary income that an investor must include in income at the ordinary income tax rate when it receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. The amount of any distribution that an investor must include in its income as a US holder will be the US\$ value of the HK\$ payments made, determined at the spot HK\$/US\$ rate on the date the distribution is includible in its income, regardless of whether the payment is in fact converted into dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date an investor includes the dividend payment in income to the date it converts the payment into United States dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. If an investor receives distributions that are not

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## TAXATION AND REGULATORY REQUIREMENTS

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subject to the special PFIC tax rules and that are in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, such investor will be treated as having received a non-taxable return of capital to the extent of its basis in the Units and thereafter such investor will recognize capital gain, which will be taxed in accordance with the special PFIC tax rules described above.

### *Mark-to-Market Rules*

The special PFIC tax rules described above will not apply to an investor if it makes an effective mark to-market election, that is, it elects to mark-to-market annually the gains and losses in the Fund's Units and the Fund's Units are treated as "marketable stock." However, the conditions necessary for making such election may not be satisfied with respect to the Units. For example, there is no certainty with respect to whether Units that trade only on foreign exchanges should be treated as "marketable stock" because there is currently no guidance as to whether any particular foreign exchange should be treated as a "qualified exchange or other market."

Under the mark-to-market rules, an investor will include as ordinary income each year the excess, if any, of the fair market value of its Units at the end of the taxable year over its adjusted basis in its Units. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. An investor may also take an ordinary loss in respect of the excess, if any, of the adjusted basis of its Units over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). An investor's basis in the Units will be adjusted to reflect any such income or loss amounts. In addition, notwithstanding any election an investor makes with regard to the Units, dividends that it receives from the Fund will not constitute qualified dividend income to such investor if the Fund is a PFIC either in the taxable year of the distribution or the preceding taxable year and such dividends will therefore not be eligible for taxation at the 20% maximum rate applicable to qualified dividend income.

An investor should consult its tax adviser as to the availability and tax consequences of a mark-to-market election.

### *Qualified Electing Fund Rules*

The special PFIC tax rules described above will not apply to an investor if it makes a QEF election, that is, the investor elects to have the Fund treated as a qualified electing fund and the Fund provides certain required information to such investor. The Fund intends to provide US holders with such information as may be required to make a QEF election effective.

If an investor is a US holder that makes a QEF election, such investor will be currently taxable on its pro rata share of the Fund's ordinary earnings and net capital gain, at ordinary income and capital gain rates, respectively, for each of the Fund's taxable years, regardless of whether or not it receives distributions. An investor's basis in the Units will be increased to reflect taxed but undistributed income. Distributions of income that had been taxed previously will result in a corresponding reduction of basis in the Units and will not be taxed again as a distribution to an investor.

### *Tax-Exempt US Holders*

The term "Tax Exempt US holder" means a US holder that is exempt from payment of US federal income tax. A Tax-Exempt US holder, though generally exempt from US federal income tax, will be subject to US federal income tax on its "unrelated business taxable income" ("UBTI"). UBTI is income that derives from a trade or business regularly carried on by a Tax-Exempt US Investor and is unrelated to the exempt

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## **TAXATION AND REGULATORY REQUIREMENTS**

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purposes of such Investor. UBTI generally does not include income such as dividends, interest and gain from the sale of property that is not inventory or otherwise held for sale to customers in the ordinary course of business. UBTI includes income and gains derived from certain debt-financed property, even if such income and gains would otherwise be excluded from UBTI. Because the Fund will be treated as a corporation for US federal income tax purposes, debt incurred by the Fund for purposes of acquiring assets should not be considered acquisition debt incurred by Tax-Exempt US holders. However, if a Tax-Exempt US holder itself incurs debt in order to finance its purchase of its Units, income and gain derived from the Units may be treated as UBTI. Unless dividends paid by the Fund to the Tax Exempt US holder are characterized as UBTI by the holder under Section 511 of the Internal Revenue Code, the PFIC rules will not apply to the investment. Each prospective Tax Exempt US holder should consult an independent tax adviser regarding the application and consequences of the PFIC rules to them and of any reporting obligation they may have as a result of investing in a PFIC.

### ***Non-US Holders***

If an investor is a non-US holder, it will not be subject to United States federal income tax on its investment in the Fund, unless one of the following scenarios applies:

- the gain is “effectively connected” with such investor’s conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that it maintains in the United States if that is required by an applicable income tax treaty as a condition for subjecting it to United States taxation on a net income basis, or
- if the investor is an individual, it is present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

If an investor is a corporate non-US holder, “effectively connected” gains that it recognizes may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or at a lower rate if such investor is eligible for the benefits of an income tax treaty that provides for a lower rate.

### ***Backup Withholding and Information Reporting***

If an investor is a noncorporate US holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- dividend payments or other taxable distributions made to such investor within the United States, and
- the payment of proceeds to such investor from the sale of Units effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if an investor is a noncorporate US holder that:

- fails to provide an accurate taxpayer identification number,
- is notified by the Internal Revenue Service that it has failed to report all interest and dividends required to be shown on its federal income tax returns, or
- in certain circumstances, fails to comply with applicable certification requirements.

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## TAXATION AND REGULATORY REQUIREMENTS

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If an investor is a non-US holder, it is generally not subject to backup withholding and information reporting requirements with respect to:

- dividend payments made to such investor outside the United States by the Fund or another non-United States payor; and
- other dividend payments and the payment of the proceeds from the sale of Units effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax, and:
  - the payor or broker does not have actual knowledge or reason to know that the investor is a United States person and has furnished the payor or broker with:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which the investor certifies, under penalties of perjury, that it is a non-United States person, or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with US Treasury regulations, or
  - the investor otherwise establishes an exemption.

Payment of the proceeds from the sale of Units effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of Units that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by an investor in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to an investor at a United States address, or
- the sale has some other specified connection with the United States as provided in US Treasury regulations,

unless the broker does not have actual knowledge or reason to know that the investor is a US holder and the documentation requirements described above are met or the investor otherwise establishes an exemption.

In addition, a sale of Units effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a US holder,
- a controlled foreign corporation for United States tax purposes,
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or
- a foreign partnership, if at any time during its tax year:

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## TAXATION AND REGULATORY REQUIREMENTS

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- one or more of its partners are “US persons” (“USPs”), as defined in US Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
- such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that the investor is a US holder and the documentation requirements described above are met or the investor otherwise establishes an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that an investor is a US holder.

An investor generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed such investor’s income tax liability by timely filing a refund claim with the United States Internal Revenue Service.

### ***Certain US Federal Income Tax Reporting Requirements***

US holders may be required to file Internal Revenue Service (“IRS”) forms in respect of transfers to and ownership of non-US partnerships and corporations, as well as (as noted above) a direct or indirect ownership of interests in a PFIC. Although US holders are not currently required to file a Report of Foreign Bank and Financial Accounts (“FBAR”) form with the IRS with respect to an investment in the Fund, US holders may be required to file a FBAR with respect to an investment in the Fund in the future. US holders also will be required to report their Interests in the Fund on IRS Form 8938.

Under US Treasury regulations, taxpayers engaging in certain transactions, including certain loss transactions above a threshold, may be required to include tax shelter disclosure information with their annual US federal income tax return. It is possible that the Fund may engage in transactions that subject the Fund and potentially its Investors to such disclosure. A US holder disposing of an interest in the Fund at a taxable loss may also be subject to such disclosure.

### ***Automatic exchange of information***

Automatic exchange of information (“AEOI”) is an umbrella term covering a number of inter-governmental and multi-lateral agreements concerning information sharing between states to promote tax transparency.

Investors should consult their own tax advisors regarding AEOI requirements with respect to their own situation. In particular, investors who hold their units through intermediaries should confirm the AEOI compliance status of those intermediaries.

### ***AEOI: Foreign Account Tax Compliance Act***

The US Foreign Account Tax Compliance Act (“FATCA”) requires non-U.S. (foreign) financial institutions (“FFI”) to report certain investor information to the US authorities. Under sections 1471 through 1474 of the U.S. Internal Revenue Code if an FFI is not compliant with FATCA then a 30% withholding tax may be imposed on certain payments to such FFI. Currently this withholding tax only applies to payments that constitute interest, dividends and other types of income from U.S. sources (such as dividends paid by a U.S. corporation).

Hong Kong has signed an Intergovernmental Agreement (“IGA”) Model 2 with the U.S. and the Fund intends to comply with the terms of the IGA and local implementing regulations.

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## TAXATION AND REGULATORY REQUIREMENTS

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As an IGA has been signed between Hong Kong and the U.S., FFIs in Hong Kong (such as the Fund) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to non-consenting accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the U.S. IRS) or close those non-consenting accounts (provided that information regarding such non-consenting account holders is reported to the U.S. IRS).

The Fund has completed the registration process and entered into the requisite FFI Agreement with the IRS.

### ***AEOI: Common Reporting Standard***

Hong Kong's Inland Revenue (Amendment) (No.3) Ordinance 2016 (the "Ordinance") and any subsequent legislative amendments set the legislative framework for the implementation in Hong Kong of the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard (the "CRS").

The CRS rules as implemented by require the Fund to, amongst other things: (i) register status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts (i.e., investors) to identify whether any such accounts are considered "Reportable Accounts" for CRS purposes; and (iii) report to the IRD information on such Reportable Accounts. Broadly, CRS contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a reportable jurisdictions; and (ii) certain entities controlled by individuals who are tax resident in reportable jurisdictions. Under the Ordinance, details of investors, their name, date of birth, place of birth (if any), address, tax residence, tax identification number (if any), account details, account balance/value, distribution income and sale/redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions of tax residence.

The investor agrees to provide the Manager with any documentation or account information to enable the Manager to comply with the requirements and obligations imposed on the Manager pursuant to the regulatory requirements (including FATCA and AEOI legislation). To the extent required by the Manager, the investor hereby consents to the disclosure and reporting of any tax related information to any local or foreign regulatory or tax authority ("Tax Authority") where the provision of that information to such person or regulatory authority is required to ensure compliance by the Fund manager with its obligations under the regulatory requirements (including FATCA and the AEOI legislation) or to avoid being subject to withholding tax or other liabilities under the regulatory requirements (including FATCA and AEOI legislation). Upon request by the Manager, the investor hereby agrees to obtain a written waiver or consent from the "substantial owners" or "controlling persons" and to provide those consents to the Manager to permit it to disclose and report relevant information to any local or foreign Tax Authority pursuant to the regulatory requirements (including FATCA and AEOI legislation). The terms "substantial owners" and "controlling persons" shall have the meaning as defined under local or foreign tax laws, regulatory guidance or intergovernmental cooperation agreements. The potential consequences for failure to comply with requests for the requested information, failure to respond to requests for waivers or consents for tax information disclosure, and/or failure to respond to requests to obtain waivers or consents from substantial owners or controlling persons, include, but are not limited to: (i) the Manager's right to take whatever actions that are necessary to comply with the local or foreign tax reporting obligations and the regulatory requirements (including FATCA and AEOI legislation); (ii) the Manager's ability to withhold an amount from certain payments made to the investor's account that is sufficient to discharge any liabilities, costs, expenses, taxes, withholdings or deductions



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## TAXATION AND REGULATORY REQUIREMENTS

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incurred or suffered by the Manager due to the representations, actions or inactions (directly or indirectly) by the investor; (iii) the Manager's right to pay relevant taxes to the appropriate tax authority; (iv) the Manager's right to refuse to provide certain services; and (v) the Manager's right, to the extent permitted by applicable laws and the Fund's and Sub-Funds' constitutional documents, to compulsorily redeem or withdraw the investor concerned. The Manager shall at all times observe relevant legal requirements and shall act in good faith and on reasonable grounds. The investor agrees to inform, or respond to any request from, the Manager, if there are any changes to tax information previously provided.

### PREVENTION OF MONEY LAUNDERING

As part of the Manager's and the Trustee's responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee or the Fund is subject, the Manager and the Trustee may require a detailed verification of a potential investor's identity and the source of payment of any subscriptions.

In the event of delay or failure by the applicant to produce any information required for verification purposes an order for Units may be refused.

The Fund, its service providers, the Trustee and other members of the HSBC Holdings Group are required to act in accordance with the laws, regulations and requests of public and regulatory authorities operating in various jurisdictions which relate to, amongst other things, the prevention of money laundering, terrorist financing and the provision of financial and other services, the Trustee to any persons or entities which may be subject to sanctions. The Fund, any of its service providers or any member of the HSBC Holdings Group may take any action which in their sole and absolute discretion consider appropriate to take in accordance with all such laws, regulations and requests.

Such action may include but is not limited to: the interception and investigation of any payment messages and other information or communications sent to or by an investor or on behalf of such investor via the systems of the Fund, any service provider of the Fund, the Trustee or any member of the HSBC Holdings Group; and making further enquiries as to whether a name which might refer to a sanctioned person or entity actually refers to that person or entity.

The Fund, its service providers, the Trustee and other members of the HSBC Holdings Group shall not be liable for loss (whether direct or consequential and including, without limitation, loss of profit or interest) or damage suffered by any party arising out of:

- (i) any delay or failure of the Fund, any of its service providers, the Trustee or any member of the HSBC Holdings Group in processing any such payment messages or other information or communications, or in performing any of their duties or other obligations in connection with any accounts or the provision of any services to an investor, caused in whole or in part by any steps which the Fund, any of its service providers, the Trustee or any member of the HSBC Holdings Group, in their sole and absolute discretion, consider appropriate to take in accordance with all such laws, regulations and requests; or
- (ii) the exercise of any of the rights of the Fund, its service providers, the Trustee and other members of the HSBC Holdings Group under this section.

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## **TAXATION AND REGULATORY REQUIREMENTS**

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In certain circumstances, the action which the Fund, any of its service providers, the Trustee or any member of the HSBC Holdings Group may take may prevent or cause a delay in the processing of certain information. Therefore, the Fund, its service providers, the Trustee and other members of the HSBC Holdings Group do not warrant that any information on their systems relating to any payment messages or other information and communications which are the subject of any action taken pursuant to this section is accurate, current or up-to-date at the time it is accessed, whilst such action is being taken.

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## SELLING RESTRICTIONS

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The following information is provided for guidance only. Investors of the Units should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Units should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

No action has been or will be taken to permit a public offering and sale of the Units or the distribution of this Offering Circular in any jurisdiction (other than in Hong Kong) where action would be required for that purpose. Accordingly, the Units may not be offered or sold, directly or indirectly, and this Offering Circular may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. In particular, the Units have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or to any PRC citizen. Each prospective purchaser of the Units must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Units or possesses or distributes this Offering Circular and must obtain any consents, approvals or permissions required for the purchase, offer or sale by it of the Units under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Fund, the Manager nor the Placing Underwriters shall have any responsibility therefor.

### UNITED STATES

Units have not been and will not be registered under the United States Securities Act of 1933, as amended or under the securities laws of any state and Units have not been and will not be registered under the Investment Company Act of 1940, as amended.

Units of the Fund may not be offered, transferred, acquired or sold to any "US Person" or for the account or benefit of a US Person. For the purposes of this restriction, the term US Person shall mean the following:

- 1) An individual who is a resident of the US under any US Law.
- 2) A corporation, partnership, limited liability company, collective investment vehicle, investment company, pooled account, or other business, investment, or legal entity:
  - a. created or organized under US Law;
  - b. created (regardless of domicile of formation or organisation) principally for passive investment (e.g. an investment company, fund or similar entity excluding employee benefit or pension plans):
    - i) and owned directly or indirectly by one or more USPs who hold, directly or indirectly, in aggregate a 10% or greater beneficial interest, provided that any such USP is not defined as a Qualified Eligible Person under CFTC Regulation 4.7(a);
    - ii) where a USP is the general partner, managing member, managing director or other position with authority to direct the entity's activities;
    - iii) where the entity was formed by or for a USP principally for the purpose of investing in securities not registered with the SEC unless such entity is comprised of Accredited Investors, as defined in Regulation D, 17 CFR 230.501(a), and no such Accredited Investors are individuals or natural persons; or

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## SELLING RESTRICTIONS

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- iv) where more than 50% of its voting ownership interests or non-voting ownership interests are directly or indirectly owned by USPs;
  - c. that is an agency or branch of a non-US entity located in the US; or
  - d. that has its principal place of business in the US.
- 3) A trust:
- a. created or organized under US Law; or
  - b. where, regardless of domicile of formation or organisation:
    - i) any settlor, founder, trustee, or other person responsible in whole or in part for investment decisions for the trust is a USP;
    - ii) the administration of the trust or its formation documents are subject to the supervision of one or more US courts; or
    - iii) the income of which is subject to US income tax regardless of source.
- 4) An estate of a deceased person:
- a. who was a resident of the US at the time of death or the income of which is subject to US income tax regardless of source; or
  - b. where, regardless of the deceased person's residence while alive, an executor or administrator having sole or shared investment discretion is a USP or the estate is governed by US Law.
- 5) An employee benefit or pension plan that is:
- a. established and administered in accordance with US Law; or
  - b. established for employees of a legal entity that is a USP or has its principal place of business in the US.
- 6) A discretionary or non-discretionary or similar account (including a joint account) where:
- a. one or more beneficial owners is a USP or held for the benefit of one or more USPs; or
  - b. the discretionary or similar account is held by a dealer or fiduciary organized in the US.

A non-US Person who invests through a US nominee will only be considered a non-US Person if the decision making process takes place off-shore.

For the purpose of this definition, the "United States" and "US" means the United States of America (including the States and the District of Columbia), its territories, possessions and other areas of subject to its jurisdiction. For the purpose of this definition, "US Law" means the laws of the US. US Law shall additionally include all applicable rules and regulations, as supplemented and amended from time to time, as promulgated by any US regulatory authority, including, but not limited to, the Securities and Exchange Commission and the Commodity Futures Trading Commission.

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## SELLING RESTRICTIONS

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If the Fund becomes aware that a Unitholder is, or has become, a US Person, such unitholder (i) will be restricted from making any additional investments in the Fund and (ii) may have its units compulsorily redeemed by the Fund (subject to the requirements of applicable law).

The Manager may, from time to time, waive or modify the above restrictions subject to the provisions of the Trust Deed.

### THE PRC

This Offering Circular may not be circulated or distributed in the PRC and the Units may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for reoffering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

### CANADA

The Units described in this Offering Circular may only be distributed in Canada through HSBC Global Asset Management (Canada) Limited, and this Offering Circular may not be used to solicit, and will not constitute a solicitation of, an offer to buy Units in Canada unless such solicitation is made by HSBC Global Asset Management (Canada) Limited. A distribution or solicitation may be deemed to occur in Canada where a distribution or solicitation is made to a person (including an individual, corporation, trust, partnership or other entity, or other legal person) resident or otherwise located in Canada at the applicable time. For these purposes, the following persons will generally be considered to be a Canadian resident:

1. An individual, if
  - i. the individual's primary principal residence is located in Canada; or
  - ii. the individual is physically located in Canada at the time of the offer, sale or other relevant activity.
2. A corporation, if
  - i. the corporation's head office or principal office is located in Canada; or
  - ii. securities of the corporation that entitle the holder to elect a majority of the directors are held by Canadian Resident individuals (as described above) or by legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the corporation are Canadian Resident individuals (as described above).
3. A trust, if
  - i. the principal office of the trust (if any) is located in Canada; or
  - ii. the trustee (or in the case of multiple trustees, the majority of trustees) are Canadian Resident individuals (as described above) or are legal persons resident or otherwise located in Canada; or
  - iii. the individuals that make investment decisions or provide instructions on behalf of the trust are Canadian Resident individuals (as described above).
4. A partnership, if
  - i. the partnership's head office or principal office (if any) is located in Canada; or
  - ii. the holders of the majority of the interests of or in the partnership are held by Canadian Residents (as described above); or
  - iii. the general partner (if any) is a Canadian Resident (as described above); or
  - iv. the individuals that make investment decisions or provide instructions on behalf of the partnership are Canadian Resident individuals (as described above).

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## TERMINATION OF THE FUND

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The Fund shall continue until it is terminated in one of the following ways set out below provided that the Fund will automatically terminate on the date falling 80 years after the date of the Trust Deed.

1. The Trustee may terminate the Fund if:
  - (a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or if a receiver is appointed over any of its assets and not discharged within sixty (60) days; or
  - (b) in the opinion of the Trustee the Manager shall be incapable of performing or shall in fact fail 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, provided that if the Manager shall be dissatisfied with such opinion the matter shall be referred to an independent arbitrator to be appointed by the Trustee and agreed to by the Manager for determination and his determination or that of his appointee shall be final and bind the Trustee and the Manager; or
  - (c) any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund; or
  - (d) the Manager ceases to manage the Fund and the Trustee fails to appoint a successor manager within a period of thirty (30) days; or
  - (e) the Trustee shall have notified the Manager of its desire to retire as the Trustee and the Manager shall be unable to find a qualified corporation to act as trustee in place of the Trustee within such time as the Manager considers to be reasonable but in any event within three (3) months from receipt of such notification from the Trustee.
  
2. The Manager may terminate the Fund if:
  - (a) after three (3) years from the Listing Date, on any date the aggregate Net Asset Value of the Fund falls below HK\$400,000,000; or
  - (b) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund; or
  - (c) the Fund ceases to be authorised or otherwise officially approved pursuant to the SFO.

The party terminating the Fund pursuant to paragraphs 1 to 2 above shall be required to give at least three (3) months' prior written notice to the Unitholders. In addition, the Fund may at any time after three (3) years from the Listing Date be terminated by an Extraordinary Resolution. Unitholders may also approve any proposal of merger or amalgamation by an Extraordinary Resolution.

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## **TERMINATION OF THE FUND**

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Notwithstanding the foregoing, the Manager may in their absolute discretion terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) pursuant to paragraph 2(a) above without any approval of the Unitholders by giving at least three (3) months' prior written notice.

Any unclaimed proceeds or other cash held by the Trustee may at the expiration of twelve (12) 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.

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## GENERAL INFORMATION

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### NET ASSET VALUE PUBLICATION

The unaudited Net Asset Value per Unit on the last Valuation Day of each calendar month (being the last Business Day of each calendar month), will be published within ten (10) Business Days in the South China Morning Post and the Hong Kong Economic Times. The Manager will also publish the unaudited Net Asset Value per Unit of each Valuation Day on the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund)<sup>4</sup> within one (1) Business Day after the relevant Valuation Day for investors' reference.

### PORTFOLIO HOLDING INFORMATION

Information relating to the Fund's portfolio, at each month end, is available to Unitholders at an appropriate time after that month end. Unitholders should contact the Manager for such information. A small charge may be levied for the provision of this information.

### FINANCIAL REPORTS

The Fund's year-end is 31 March and audited annual reports are available for Unitholders within four months of the end of each financial year. Half-yearly unaudited interim reports are also available for Unitholders within two months of the period which they cover.

Unitholders may elect to receive audited annual reports and unaudited interim reports in English and/or Chinese. Please refer to the section below headed "Corporate Communications" for details.

### CORPORATE COMMUNICATIONS

Unitholders may select to receive Corporate Communications either:

(i) in printed form, in either (a) the English language version only, (b) the Chinese language version only, or (c) both the English and Chinese language versions; or

(ii) by electronic means through the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund)<sup>4</sup> where both English and Chinese language versions of future Corporate Communications will be available.

Unitholders are entitled at any time by reasonable notice in writing to the Registrar to change their choice of language and/or the means of receipt of the Corporate Communications.

Unless otherwise instructed by the Unitholders, the following arrangements will apply:

(i) the printed Chinese language version of future Corporate Communications will be sent to all Hong Kong Unitholders who are natural persons with a Chinese name; and

(ii) the printed English language version of future Corporate Communications will be sent to all overseas Unitholders and all Hong Kong Unitholders other than natural persons with a Chinese name.

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<sup>4</sup> This website has not been reviewed by the SFC.



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## GENERAL INFORMATION

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Whether a Unitholder is a Hong Kong or an overseas Unitholder will be determined by the address of that Unitholder appearing in the register of Unitholders of the Fund maintained by the Registrar.

Unitholders may change their choice of language and/or the means of receipt of future Corporate Communications by completing a change request form (available for the Registrar) and returning it to the Registrar.

When each new Corporate Communication is published on the Fund's website, the Fund will send printed notification to the Unitholders who have elected to receive Corporate Communications by electronic means. Together with the notification, the Fund will also enclose a form and a postage pre-paid addressed envelope, specifying that the printed copy of that particular Corporate Communication will be available upon request and Unitholders may also change their choice of means of receipt of subsequent Corporate Communication by completing that form and returning it to the Registrar.

Corporate Communications in both English and Chinese languages, and in accessible format, will be available on the Fund's website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund)<sup>5</sup> for five (5) years from the date of first publication of the relevant Corporate Communications and a copy in electronic format in both languages will be published on the website of Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) on the same day as such Corporate Communication is sent to Unitholders.

If a Unitholder chooses to receive the Corporate Communications via electronic means rather than receiving printed copies, such Unitholder is deemed to have expressly consented to waive the right to receive the Corporate Communications in printed form, including the right to receive notice of meeting by post or delivery at his address pursuant to the trust deed constituting the Fund, unless and until he changes his choice by giving the Registrar further notice.

### MEETINGS OF THE UNITHOLDERS

The Trust Deed contains detailed provisions for meetings of Unitholders. Meetings may be convened by the Trustee, the Manager or the Unitholders of at least 10% of the total number of Units in issue, on not less than twenty one (21) days' notice. Notice of meetings will be posted to Unitholders. Unitholders may appoint proxies, who need not themselves be Unitholders. The quorum for a meeting to pass an Extraordinary Resolution will be Unitholders present in person or by proxy and holding or representing not less than 25% of the Units for the time being in issue or, for an adjourned meeting, Unitholders present in person or by proxy whatever their number or the number of Units held by them. The matters which require the approval of Unitholders by Extraordinary Resolution in general meeting are set out in the Trust Deed, including but not limited to:

- (a) the request for de-listing of the Fund from the Stock Exchange; and
- (b) the request for withdrawal of authorisation of the Fund from the SFC.

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<sup>5</sup> This website has not been reviewed by the SFC.

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## **GENERAL INFORMATION**

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Notwithstanding the foregoing, if the Net Asset Value at any time falls below HK\$400 million after three (3) years from the Listing Date, the Manager may in their absolute discretion terminate the Fund (including, as a result of such decision to terminate the Fund, applying for the withdrawal of the SFC's authorisation of the Fund from the SFC and/or the de-listing of the Fund from the Stock Exchange) without any approval of the Unitholders by giving at least three (3) months' prior written notice.

### **MODIFICATION OF THE TRUST DEED**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Fund or (ii) is necessary in order to comply with any fiscal, statutory, regulatory or official requirement or (iii) is made to correct a manifest error. In all other cases modifications require the sanction of an Extraordinary Resolution of the Unitholders.

The Trustee will give such notice as deemed necessary by the SFC to Unitholders of any modifications to the Trust Deed as soon as practicable after they are made, unless such modifications are sanctioned by an Extraordinary Resolution of the Unitholders or are not in the opinion of the Trustee of material significance.

### **VOTING RIGHTS**

The Trust Deed provides that at any meeting of Unitholders, on a show of hands, every Unitholder who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative or one of its officers as its proxy shall have one vote and, on a poll, every Unitholder who is present as aforesaid or by proxy shall have one vote for every Unit of which he is the holder.

### **REMOVAL AND RETIREMENT OF THE MANAGER**

Removal or retirement of the Manager must be approved by the Unitholders.

The Manager shall be subject to removal by not more than one (1) month's notice in writing given by the Trustee in any of the following events:

- (a) if the Manager goes into liquidation or if a receiver is appointed over any of its assets;
- (b) if the Unitholders of not less than 50% in value of the Units for the time being outstanding deliver to the Trustee in writing a request that the Manager should retire; or
- (c) if for good and sufficient reason the Trustee is of the opinion and so states in writing to the Manager that a change of Manager is desirable in the interests of the Unitholders, provided that the Manager may refer the matter to an independent arbitrator.

The Manager shall have power to retire in favour of some other qualified manager provided that prior approval of the SFC, the Trustee and the Unitholders are obtained.

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## GENERAL INFORMATION

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### REMOVAL OF THE TRUSTEE

The Trustee shall be subject to removal by not less than three (3) months' notice in writing given by the Manager (or such short period of notice as the parties may agree). Notwithstanding such notice, the Trustee shall not be removed or cease to act as such unless and until the Manager shall, subject to the prior approval of the SFC, have appointed a qualified corporation under any applicable law to be the trustee in place of the removed Trustee.

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## DOCUMENTS AVAILABLE FOR INSPECTION

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Copy of the Trust Deed is available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at HSBC Main Building, 1 Queen's Road Central, Hong Kong. Copy of the Trust Deed is available for purchase on payment of a reasonable fee.

This Offering Circular will also be made available on the website at [www.assetmanagement.hsbc.com/hk-chinadragonfund](http://www.assetmanagement.hsbc.com/hk-chinadragonfund)<sup>6</sup>.

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<sup>6</sup> This website has not been reviewed by the SFC.