**Important – If you are in any doubt about the contents of this offering document, you should seek independent professional financial advice.** *C19(a)*

# *DCI Investment Trust*

## EXPLANATORY MEMORANDUM

# Da Cheng Global Select Bond Fund *C1*

**a sub-fund under the DCI Investment Trust**

***MANAGER***
**Da Cheng International Asset Management Company Limited**

**October 2026** *C21*

# IMPORTANT INFORMATION

This Explanatory Memorandum relates to the offer in Hong Kong of units (the "**Units**") in the Da Cheng Global Select Bond Fund (the "**Sub-Fund**"), a sub-fund of DCI Investment Trust (the "**Trust**"), an open ended umbrella unit trust established under Hong Kong law by a trust deed dated 30 December 2011 (the "**Trust Deed**") between Da Cheng International Asset Management Company Limited (the "**Manager**") and BOCI-Prudential Trustee Limited (the "**Trustee**"), and as amended and restated on 30 April 2019 and as further amended from time to time. *C1*

The information contained in this Explanatory Memorandum has been prepared to assist potential investors in making an informed decision in relation to investing in the Sub-Fund. It contains important facts about the Units offered in accordance with this Explanatory Memorandum.

A product key facts statement which contains the key features and risks of the Sub-Fund is also issued by the Manager and such product key facts statement shall form part of this Explanatory Memorandum, and shall be read, in conjunction with, this Explanatory Memorandum. *C19A*

The Manager accepts full responsibility for the accuracy of the information contained in this Explanatory Memorandum 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. However, neither the delivery of this Explanatory Memorandum nor the offer or issue of Units shall under any circumstances constitute a representation that the information contained in this Explanatory Memorandum is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum may from time to time be updated. *C22*

Any information given or representations made by any dealer, salesman or other person and (in either case) not contained in this Explanatory Memorandum should be regarded as unauthorised and accordingly must not be relied upon.

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

You should consult your financial adviser, consult your tax advisers and take legal advice as appropriate as to whether any governmental or other consents are required, or other formalities need to be observed, to enable you to acquire Units as to whether any taxation effects, foreign exchange restrictions or exchange control requirements are applicable and to determine whether any investment in the Sub-Fund is appropriate for you.

No action has been taken to permit an offering of Units or the distribution of this Explanatory Memorandum in any jurisdiction other than Hong Kong and, accordingly, the Explanatory Memorandum does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Neither the Trust nor the Sub-Fund is registered as an investment company with the United States Securities and Exchange Commission. Units have not been, and will not be, registered under the United States Securities Act of 1933 or any other United States Federal or State law and accordingly Units are not offered to, and may not be transferred to or acquired by, US persons (including without limitation US citizens and residents as well as business entities organised under United States' law).

The information given in this Explanatory Memorandum is provided for guidance only. 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.

This Explanatory Memorandum may refer to information and materials included in websites, including the Manager's website (http://www.dcfund.com.hk) (this website has not been reviewed by the SFC). Such information and materials do not form part of the Explanatory Memorandum and they have not been reviewed by the SFC or any regulatory body. Investors should note that the information provided in websites may be updated and changed periodically without any notice to any person. The Manager's website has not been reviewed by the SFC. *C22A*

Any investor enquiries or complaints should be submitted in writing to the Manager's office (Suites 3513-3519, Jardine House, 1 Connaught Place, Central, Hong Kong) and the Manager will issue a written response within 14 Business Days of receipt of the enquiry or complaint.

# DIRECTORY

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## DEFINITIONS

In this Explanatory Memorandum, unless the context requires otherwise, the following expressions have the meanings set out below. Other capitalised terms used, but not defined, have the meaning given to those terms in the Trust Deed.

"**A-Shares**" means shares issued by companies incorporated in the PRC and listed on the SSE, the SZSE or the BSE traded in RMB and available for investment by domestic investors, qualified foreign investors and through Stock Connect.

"**AUD**" means Australian dollars, the currency of Australia.

"**Base Currency**" means, in respect of the Sub-Fund, USD.

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for general business or such other day or days as the Trustee and the Manager may agree from time to time.

"**Code**" means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended, or replaced, from time to time).

"**Connected Person**" has the meaning as set out in the Code which at the date of the Explanatory Memorandum means in relation to a company:

(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or

(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or

(c) any member of the group of which that company forms part; or

(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

"**CSDCC**" means the China Securities Depository and Clearing Co., Ltd.

"**CSRC**" means the China Securities Regulatory Commission.

"**Custodian**" means Bank of China (Hong Kong) Limited, acting in its capacity as custodian of the investments and uninvested cash of the Sub-Fund.

"**Dealing Day**" means the days on which Units are subscribed for or redeemed, and in respect of the Sub-Fund, a day (other than a Saturday) on which banks in Hong Kong are open for general business and/or such other day or days as the Manager may from time to time determine with the approval of the Trustee. *C7*

"**Dealing Deadline**" means in respect of the Sub-Fund, 4:00pm on the relevant Dealing Day.

"**entities within the same group**" means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards.

"**EUR**" or "**EURO**" means the currency of the European Union.

“**Government and other Public Securities**” has the meaning as set out in the Code which at the date of this Explanatory Memorandum means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.

“**Hong Kong dollars**” or “**HKD**” means the currency of Hong Kong.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Initial Offer Period**” means the period during which Units will be offered for subscription at a fixed price which commenced at 9:00 am (Hong Kong time) on 21 July 2025 and closed at 4:00 pm (Hong Kong time) on 29 July 2025 or such other times and dates as the Manager may in its absolute discretion determine.

“**Investment Advisor**” means Southlake Fund Management (Hong Kong) Limited.

“**Manager**” means Da Cheng International Asset Management Company Limited.

“**Net Asset Value**” means the net asset value of the Sub-Fund or, as the context may require, the net asset value of a Unit, in accordance with the provisions of the Trust Deed.

“**NZD**” means New Zealand dollars, the currency of New Zealand.

“**PBOC**” means The People’s Bank of China.

“**PRC**” or “**Mainland China**” means The People’s Republic of China excluding, for the purposes of interpretation of this Explanatory Memorandum, Hong Kong, Macau and Taiwan.

“**QFI**” or “**QFI holder**” means a qualified foreign institutional investor approved pursuant to the relevant regulations in Mainland China.

“**Redemption Price**” means the price at which Units will be redeemed as described in the section headed “How do I redeem my Units” under “How to redeem the Units” below.

“**Registrar**” means BOCI-Prudential Trustee Limited as registrar of the Trust.

“**Renminbi**”, “**RMB**” **or** “**¥**” means Renminbi Yuan, the currency of the PRC.

“**repurchase transactions**” means transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future.

“**reverse repurchase transactions**” means transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future.

“**SAFE**” means the State Administration of Foreign Exchange of the PRC.

“**securities financing transactions**” means, collectively, securities lending transactions, sale and repurchase transactions and reverse repurchase transactions.

“**securities lending transactions**” means transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee.

"**SFC**" means the Securities and Futures Commission of Hong Kong or its successors.

"**SFO**" means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong.

"**SSE**" means the Shanghai Stock Exchange.

"**STA**" means the State Taxation Administration of the PRC.

"**Stock Connect**" means the mutual stock market access between the PRC and Hong Kong, comprising the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

"**Sub-Fund**" means the Da Cheng Global Select Bond Fund.

"**SZSE**" means the Shenzhen Stock Exchange.

"**Subscription Price**" means the price at which Units will be issued as described in the section headed "How much are the Units" under "How to Purchase the Units" below.

"**Trust**" means the DCI Investment Trust.

"**Trust Deed**" means the trust deed dated 30 December 2011 between the Manager and the Trustee constituting the Trust, as amended and restated on 30 April 2019 and as further amended and supplemented from time to time.

"**Trust Fund**" means all the property held by the Trust, except for amounts to be distributed, in each case in accordance with the Trust Deed.

"**Trustee**" means BOCI-Prudential Trustee Limited.

"**Unit**" means a unit in the Sub-Fund.

"**Unitholder**" means a person entered on the register of holders as the holder of a Unit.

"**US dollars**" or "**USD**" means the currency of the United States.

"**Valuation Day**" means each Dealing Day. *C7*

"**Valuation Point**" means the close of business in the last relevant market to close on a relevant Valuation Day or such other time on that day or other day as the Manager and the Trustee may determine from time to time.

## SUMMARY

### *Introduction*

DCI Investment Trust is an umbrella trust established under the laws of Hong Kong pursuant to a Trust Deed dated 30 December 2011 between the Trustee and the Manager, as amended and restated on 30 April 2019 and as further amended from time to time. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. *C1*

The Sub-Fund has been authorised as a collective investment scheme in the form of a unit trust by the SFC under Section 104 of the SFO and the Code. SFC authorisation is not a recommendation or endorsement of the Sub-Fund nor does it guarantee the commercial merits of the Sub-Fund or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

Under the Trust Deed, different sub-funds may be established and the assets of the Trust are separated into different sub-funds. Each sub-fund has its own investment objective and policies. More than one class of units may be offered in relation to a particular sub-fund, which may have different terms, including different currencies of denomination. Additional classes of Units and/or additional sub-funds may be created in the future. As of the date of this Explanatory Memorandum, the Trust has seven sub-funds available to investors, namely the Da Cheng China Balanced Fund, the Da Cheng Overseas China Concept Fund, the Da Cheng Money Market Fund, the Da Cheng Hong Kong Dollar Money Market Fund, the Da Cheng Short Term Bond Fund, Da Cheng China Sustainable Equity Fund, and Da Cheng Global Select Bond Fund. The Da Cheng Global Select Bond Fund (the "**Sub-Fund**") is described in this Explanatory Memorandum.

### *Key information on the Sub-Fund*

*Set out below is a summary of key information in respect of the Sub-Fund which should be read together with the full text of this Explanatory Memorandum and the product key facts statement of the Sub-Fund.*

| | | | |
|---|---|---|---|
| **Name of the Sub-Fund** | Da Cheng Global Select Bond Fund | | |
| **Launch Date** | 30 July 2025 | | |
| **Investment Minima** | Please refer to the "Investment Minima" sub-section under "How to Purchase the Units" | | *C4* |
| **Base Currency** | USD | | |
| **Dealing Frequency** | Daily | | *C7* |
| **Dividend Policy** | For all Class A Units, Class I Units and Class M Units, the Manager may at its discretion pay dividends monthly. Dividends (if any) will be paid in the currency of the relevant class of Units.<br><br>Dividends (if any) may, at the Manager's discretion, be paid out of capital, or out of gross income and all or part of the fees and expenses may be charged to capital, resulting in an increase in distributable income for the payment of dividends and therefore, dividends may be paid effectively out of capital. This may result in an immediate reduction of Net Asset Value per Unit. | | *C13* |
| **Parties** | **Manager** | Da Cheng International Asset Management Company Limited | |

| | | |
|---|---|---|
| | **Investment Advisor** | Southlake Fund Management (Hong Kong) Limited |
| | **Trustee & Registrar** | BOCI-Prudential Trustee Limited |
| | **Custodian** | Bank of China (Hong Kong) Limited |
| **Management Fee** | Class A Units: 1.00% (per annum of the Net Asset Value)<br><br>Class I Units: 0.70% (per annum of the Net Asset Value)<br><br>Class M Units[#]: Nil | |
| **Performance Fee** | N/A | |
| **Trustee Fee** | Up to 0.11% per annum of the Net Asset Value, subject to a monthly minimum of USD5,000 | |
| **Custody Fee** | Up to 0.10% per annum of the Net Asset Value | |
| **Preliminary Charge** | Class A Units: Up to 3% of the Subscription Price<br><br>Class I Units and Class M Units: Nil | |
| **Redemption Charge** | Nil | |
| **Switching Fee** | Up to 2% of the redemption price | |
| **Other Fees and Expenses** | Please refer to the section headed “Fees and Expenses” | |
| **Financial Year End** | 31 December | *C17* |
| **Website** | http://www.dcfund.com.hk | |

*[#] Class M Units are available for investment by managed accounts and other funds managed by the Manager or its associated entity(ies) or by other investors as agreed by the Manager.*

## INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTION

### *Investment objective*

The Sub-Fund's investment objective is to achieve capital appreciation over the medium to long term by investing globally in a portfolio of fixed income. There can be no assurance that the Sub-Fund will achieve its investment objective. *C2*

### *Investment strategy*

Principal investments

The Sub-Fund seeks to achieve its investment objective by investing primarily (i.e. not less than 70% and up to 100% of its Net Asset Value) in a portfolio of debt securities including but not limited to Dim Sum bonds (i.e., offshore RMB denominated bonds), corporate bonds, government bonds, fixed and floating rate bonds and zero coupon bonds issued and/or guaranteed by issuers such as corporations, financial institutions and banks, which may include investment grade, non-investment grade and/or unrated debt securities. The Sub-Fund may invest in debt securities denominated in any currencies. The Sub-Fund may also invest in commercial papers, certificates of deposits commercial bills, short-term deposits and fixed income instruments.

The aggregate investment in below investment grade debt securities and/or unrated debt securities will be up to 85% of the Sub-Fund's Net Asset Value. "Investment grade" refers to:

- a rating of BBB- or higher by Standard & Poor's and Fitch Ratings or Baa3 or higher by Moody's or equivalent rating as rated by an international credit rating agency, and for Mainland Chinese debt securities, a rating of AA+ or above by China Chengxin International Credit Rating Co., Ltd, China Lianhe Credit Rating Co., Ltd ("reputable Mainland China rating agencies"); and

- if the relevant debt security does not itself have a credit rating, reference can be made to the credit rating of the issuer or the guarantor of such debt security and issuers or guarantors in Mainland China shall at least have a credit rating of AA+ or above rated by reputable Mainland China rating agencies or equivalent ratings by one of the local rating agencies recognized by the relevant authorities in Mainland China.

For the purpose of the Sub-Fund, "unrated debt securities" is defined as a bond which neither the bond itself, its issuer nor its guarantor has a credit rating. In the case of split rating (i.e. different ratings are given by two or more rating agencies), the highest rating will be considered.

When assessing the credit quality of the debt securities, the Manager will carry out systematic due diligence to collect the financial data, non-financial information, debt terms, and macro-industry environment of the relevant debt security, followed by evaluation of its solvency and default probability based on financial indicators such as current ratio and debt-to-asset ratio, and risk assessment through qualitative factors including management strategy, corporate governance, and guarantee measures.

The Sub-Fund may invest in RMB denominated debt securities issued within Mainland China (i.e. Mainland Chinese debt securities) via the QFI regime, the Foreign Access Regime and the Bond Connect. Investments in Mainland Chinese debt securities may include urban investment bonds, which are debt instrument issued by local government financial vehicles ("**LGFVs**") in the Mainland China exchange-traded bond markets and the interbank bond market. These LGFVs are separate legal entities established by local governments and / or their affiliates to raise financing for public welfare investment or infrastructure projects. The Sub-Fund may invest in aggregate less than 30% of its Net Asset Value in any Mainland Chinese debt securities .

There is no specific geographical allocation of the country or region of issue of the debt securities or deposits. Countries or regions in which the Sub-Fund may invest in include (but are not limited to) Hong Kong, Mainland China, Japan, Korea, Australia, Canada, the European Union and the United States. Other than the limit in the Sub-Fund's investments in Mainland Chinese debt securities as set out above, there is no limit in the Sub-Fund's investments in emerging markets debt securities. The Sub-Fund has no current intention to invest more than 10% of its Net Asset Value in debt securities issued and/or guaranteed by a single sovereign issuer which is below investment grade or unrated.

The Sub-Fund will invest in a broadly diversified portfolio of debt securities with no fixed duration, term structure or industry sector weightings in the allocation of assets in developed and emerging markets. Selection of investments will be determined by the availability of attractive investment opportunities taking into account factors including the macroeconomic cycles, instrument characteristics, issuer fundamentalss, and market liquidity.

Ancillary investments

The Sub-Fund may in aggregate invest up to 30% of its Net Asset Value in (i) convertible bonds; (ii) collateralised and/or securitised securities (including asset backed commercial papers and mortgage backed securities) and structured deposits and structured products such as security-linked investments, index-linked investments and structured notes and (iii) debt instruments with loss-absorption features ("**LAP**") e.g. contingent convertible debt securities ("**CoCos**"), senior non-preferred debts and perpetual bonds; these instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s); the Sub-Fund may invest in Cocos or perpetual bonds with the perpetual call within 5 years.

The Sub-Fund may also hold less than 30% of its Net Asset Value in cash or cash equivalents and money market instruments. Such money market instruments may include money market funds managed by the Manager. Where the Sub-Fund invests in any collective investment schemes managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on such collective investment scheme(s) must be waived. The Sub-Fund may temporarily hold 100% of its assets in cash or cash equivalents in adverse market conditions for the purposes of managing downside risk or liquidity, should the Manager deem such strategy necessary under exceptional circumstances such as a significant market downturn or market crisis.

Financial derivative instruments and other investments

The Sub-Fund may invest exchange rate and interest rate related products for hedging purposes such as swaps, FX futures and forwards. The Sub-Fund will invest in financial derivative instruments ("**FDIs**") for both hedging and efficient portfolio management purposes to the extent permitted by the Code.

The Sub-Fund may also enter into sale and repurchase transactions and/or reverse repurchase transactions for up to 100% of its Net Asset Value and it is the current intention that 50% of the Sub-Fund's Net Asset Value will be available for these transactions. There is no current intention for the Sub-Fund to enter into any securities lending transactions. For sale and repurchase transactions and/or reverse repurchase transactions, the Manager will seek to appoint independent counterparties approved by the Manager with credit rating of BBB- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognised credit rating agencies) or are SFC-licensed corporations or are registered institutions with the Hong Kong Monetary Authority. Any incremental income generated will be credited to the account of the Sub-Fund after deducting any fees charged by parties operating such transactions. It is the intention of the Manager to sell the debt securities included in the Sub-Fund for cash equal to the market value of the debt securities provided to the counterparty. Where cash received by the Sub-Fund is used for re-

investment, such cash may only be re-invested in accordance with Chapter 7 of the Code and the provisions set out under the section "Investment restrictions" below.

***QFI regime***

Under current regulations in the PRC, foreign investors can invest in the Mainland China securities market via various ways, including through certain foreign institutional investors that have obtained status as a QFI from the CSRC for the purpose of investing in the PRC's domestic securities markets, or via Bond Connect. In accordance with the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (in Chinese《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》and its implementing rules and the Regulations on Capital Management of Domestic Securities and Futures Investments by Foreign Institutional Investors (in Chinese《境外機構投資者境內證券期貨投資資金管理規定》) (collectively, the "**QFI Rules**"), the Manager is able to select whether to use foreign convertible currencies or RMB to make investment under the QFI regime.

The Manager has obtained QFI status pursuant to the QFI Rules.

All of the Sub-Fund's assets in Mainland China (including onshore cash deposits and other investments) will be held by the QFI sub-custodian. A securities account has been opened with the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限責任公司) (the "**CSDCC**") in the joint names of the Manager (as the QFI holder) and the Sub-Fund. A special RMB cash account has been established and maintained with the QFI sub-custodian in the joint names of the Manager (as the QFI holder) and the Sub-Fund. The QFI sub-custodian shall, in turn, have a cash clearing account with CSDCC for trade settlement according to applicable regulations.

***Investment in the PRC Inter-bank Bond Market via Northbound Trading Link under Bond Connect***

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

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

- the "Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong (Decree No.1 [2017])" (內地與香港債券市場互聯互通合作管理暫行辦法(中國人民銀行令[2017]第1號)) issued by the PBOC on 21 June 2017;

- the "Guide on Registration of Overseas Investors for Northbound Trading in Bond Connect" ("債券通"北向通境外投資者准入備案業務指引) issued by the Shanghai Head Office of PBOC on 22 June 2017; and

- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in the PRC, eligible foreign investors will be allowed to invest in the bonds circulated in the PRC inter-bank bond market through the northbound trading of Bond Connect ("**Northbound Trading Link**"). There will be no investment quota for Northbound Trading Link.

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

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

***Investment in the PRC Inter-bank Bond Market via Foreign Access Regime***

Pursuant to the "Announcement (2016) No 3" issued by the PBOC (中國人民銀行公告 [2016] 第3號) on 24 February 2016, foreign institutional investors can invest in the PRC inter-bank bond market ("**Foreign Access Regime**") subject to other rules and regulations as promulgated by the PRC authorities, i.e., PBOC and the SAFE. Such rules and regulations may be amended from time to time and include (but are not limited to):

- the "Implementation Rules for Filing by Foreign Institutional Investors for Investment in Interbank Bond Markets" (境外機構投資者投資銀行間債券市場備案管理實施細則) issued by the Shanghai Head Office of PBOC on 27 May 2016;
- the "Circular concerning the Foreign Institutional Investors' Investment in Interbank bond market in relation to foreign currency control" (國家外匯管理局關於境外機構投資者投資銀行間債券市場有關外匯管理問題的通知) issued by SAFE on 27 May 2016; and
- any other applicable regulations promulgated by the relevant authorities.

Under the prevailing regulations in the PRC, foreign institutional investors who wish to invest directly in the PRC inter-bank bond market may do so via an onshore settlement agent, who will be responsible for making the relevant filings and account opening with the relevant authorities. There is no quota limitation.

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

***Investment restrictions*** *C2*

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

(a) the aggregate value of a Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of such Sub-Fund: *7.1*

(1) investments in securities issued by such entity;

(2) exposure to such entity through underlying assets of FDI; and

(3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;

(b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of a Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the Net Asset Value *7.1A*

of the Sub-Fund:

(1) investments in securities issued by such entities;

(2) exposure to such entities through underlying assets of FDIs; and

(3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;

(c) unless otherwise approved by the SFC, the value of a Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the Net Asset Value of the Sub-Fund, unless: *7.1B*

(1) the cash is held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or

(2) the cash is proceeds from liquidation of investments prior to the merger or termination of a Sub-Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or

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

(d) ordinary shares issued by a single entity held for the account of a Sub-Fund, when aggregated with other holdings of ordinary shares issued by a single entity held for the account of all other Sub-Funds under the Trust collectively, may not exceed 10% of the nominal amount of the ordinary shares issued by a single entity; *7.2* *7.40*

(e) not more than 15% of the total Net Asset Value of a Sub-Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded; *7.3*

(f) notwithstanding (a), (b) and (d), not more than 30% of the total Net Asset Value of a Sub-Fund may be invested in Government and other Public Securities of the same issue; *7.4*

(g) subject to 0, a Sub-Fund may fully invest in Government and other Public Securities in at least six different issues; *7.5*

(h) unless otherwise approved by the SFC, a Sub-Fund may not invest in physical commodities; *7.10*

(i) for the avoidance of doubt, exchange traded funds that are:

(1) authorised by the SFC under 8.6 or 8.10 of the Code; or

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

may either be considered and treated as (x) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (y) collective investment schemes for the purposes of and subject to the requirements in paragraph (j)

below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and the relevant investment limits in exchange traded funds by a Sub-Fund should be consistently applied and clearly disclosed in this Explanatory Memorandum;

(j) where a Sub-Fund invests in shares or units of other collective investment schemes ("managed funds"), *7.11*

(1) the value of such Sub-Fund's investment in units or shares in managed funds which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10% of the total Net Asset Value of the Sub-Fund; and

(2) such Sub-Fund may invest in one or more managed funds which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Sub-Fund's investment in units or shares in each such managed fund may not exceed 30% of the total Net Asset Value of the Sub-Fund, unless the managed fund is authorised by the SFC and its name and key investment information are disclosed in the Explanatory Memorandum of the Sub-Fund, *7.11A*

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

(i) the objective of each managed fund may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that managed fund's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, a Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total net asset value, and exchange traded funds satisfying the requirements in paragraph (i) above in compliance with paragraph (j)(1) and (j)(2); *7.11B Note (3)*

(ii) where the managed funds are managed by the same management company as that of a Sub-Fund that invests in them, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the managed fund; *7.11B Note (2)*

(iii) the objective of the managed funds may not be to invest primarily in other collective investment scheme(s); *7.11B Note (4)*

(iv) where an investment is made in any managed fund(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the managed fund(s) must be waived; and *7.11C*

(v) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by a managed fund or the management company of a managed fund, or quantifiable monetary benefits in connection with investments in any managed fund; *7.11D*

(k) a Sub-Fund may invest 90% or more of its total Net Assets Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case: *7.12(a), (b), (d)*

(1) the underlying scheme ("master fund") must be authorised by the SFC;

(2) the Explanatory Memorandum must state that:

(i) the Sub-Fund is a feeder fund into the master fund;

(ii) for the purpose of complying with the investment restrictions, the Sub-Fund

and its master fund will be deemed a single entity;

(iii) the Sub-Fund's annual report must include the investment portfolio of the master fund as at the financial year end date; and

(iv) the aggregate amount of all the fees and charges of the Sub-Fund and its underlying master fund must be clearly disclosed;

(3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, management company's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Holders or by the Sub-Fund may result, if the master fund in which the Sub-Fund invests is managed by the Manager or by its Connected Person; and

(4) notwithstanding paragraph (j)(iii) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (j); and *7.12(e)*

(l) if the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents. *7.42*

A Sub-Fund shall not:

(a) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager collectively own more than 5% of those securities; *7.19*

(b) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)); *7.14*

(c) make short sales if as a result a Sub-Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted); *7.15* *7.16*

(d) lend or make a loan out of the assets of a Sub-Fund, except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan; *7.17*

(e) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code; *7.17*

(f) enter into any obligation in respect of a Sub-Fund or acquire any asset or engage in any transaction for the account of a Sub-Fund which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the relevant Sub-Fund; or *7.18* *7.18A*

(g) apply any part of a Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of a Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code. *7.20*

***Borrowing***

The maximum borrowing of each Sub-Fund shall not exceed 10% of its latest available Net Asset Value. Where the Manager so determines, a Sub-Fund's permitted borrowing level may be a lower percentage. The Trustee may, at the request of the Manager, borrow for the account of a Sub-Fund any currency, and charge or pledge assets of a Sub-Fund, for the following purposes: *7.21*

(a) facilitating the creation or redemption of Units or defraying operating expenses;

(b) enabling the Manager to acquire Securities for the account of such Sub-Fund; or

(c) for any other proper purpose as may be agreed by the Manager and the Trustee (except to enhance the performance of any Sub-Fund).

If any of the restrictions or limitations set out above is breached in respect of a Sub-Fund, the Manager will make it a priority objective to take all necessary steps within a reasonable period of time to remedy such breach, taking into account the interests of the Unitholders of that Sub-Fund. *7.41*

***Financial Derivative Instruments***

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of a Sub-Fund enter into any transactions in relation to swaps or other FDI.

A Sub-Fund may acquire FDIs for hedging purpose provided that such FDIs shall meet all of the following criteria: *7.25*

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

(b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;

(c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

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

Each Sub-Fund may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the Sub-Fund's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50% of its total Net Asset Value, except this limit may be exceeded for Sub-Funds approved by the SFC under Chapters 8.8 (structured funds) or 8.9 (funds that invest extensively in financial derivative instruments) of the Code. In this regard: *7.26*

(a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by a Sub-Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;

(b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and

(c) for the avoidance of doubt, FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

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

(a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies; *7.28(a)*

(b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions; *7.28(b)*

(c) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of such Sub-Fund; and *7.28(c)*

(d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Manager. Further, calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis. *7.28(d)*

Subject to the above, a Sub-Fund may invest in FDIs provided that the exposure to the underlying assets of the FDIs, together with the other investments of the relevant Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in the relevant provisions of Chapter 7 of the Code. *7.27*

A Sub-Fund shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDIs (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDIs are adequately covered on an ongoing basis. A transaction in FDIs which gives rise to a future commitment or contingent commitment of a Sub-Fund should also be covered as follows: *7.29 7.30(a),(b)*

(a) in the case of FDIs transactions which will, or may at the discretion of the Trustee or the Manager, be cash settled, the Sub-Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and

(b) in the case of FDIs transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Sub-Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the Sub-Fund may hold other alternative assets in sufficient quantity as cover, provided that such assets may be readily converted into the underlying assets at any time to meet the delivery obligation.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well. *7.31*

***Securities lending, repurchase and similar over-the counter transactions***

The Trustee may, at the request of the Manager, enter into securities lending arrangements, repurchase and similar over-the counter transactions in respect of a Sub-Fund, provided that they are in the best interests of Unitholders and the associated risks have been properly mitigated and addressed. *7.32 C2(a)*

Securities lending transactions will only be entered into:-

(a) if the Manager is satisfied that the borrower will provide sufficient assets as collateral for the borrowed securities of a value equivalent to or in excess of the borrowed securities and such collateral to be quality, liquid collateral; and

(b) through the agency of a recognised clearing system or a financial institution acceptable to the Manager which engages in this type of transaction.

Further, unless otherwise specified under the "Investment Strategy" section, details of the securities lending arrangements, repurchase and similar over-the counter transactions are as follows:-

(a) all revenue arising from such securities lending, repurchase or similar over-the counter transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of such transactions, will be credited to the account of the relevant Sub-Fund (and will not be shared with any operating party); *7.34 C2(b)*

(b) each counterparty for such transactions (including a borrower for a securities lending transaction) will be an independent counterparty approved by the Manager and will be a financial institution which is subject to ongoing prudential regulation and supervision. Each counterparty is expected to be (i) incorporated in countries of high credit quality, (ii) have a minimum credit rating of BBB- or above (by Moody's or Standard & Poor's, or any other equivalent ratings by recognised credit rating agencies), or (iii) be a licensed corporation with the SFC or registered institution with the Hong Kong Monetary Authority when entering into such transactions; *C2(c) C2A(b)*

(c) the relevant Sub-Fund should have at least 100% collateralization in respect of securities lending, repurchase or similar over-the counter transactions. The Trustee, upon the instruction of the Manager, will take collateral, which will be cash or liquid securities with value greater than or equal to the value of the securities lent, and the collateral agent (who may be the Trustee or a third party to be appointed by the Trustee at the direction of the Manager or by the Manager directly, as may from time to time be agreed between them) will review its value on a daily basis to ensure that it is at least of a value equivalent to the borrowed securities, and such collateral must meet the collateral policies described below; *7.33 C2(d)*

(d) up to 100% of the assets of the relevant Sub-Fund may be available for such transactions; *C2(e)*

(e) the Manager will ensure that it is able to recall the securities or the full amount of cash (as the case may be) subject to the securities lending, repurchase or similar over-the counter transactions or terminate such transactions into which it has entered; and *7.35*

(f) where any securities lending transaction is arranged through the Trustee or a Connected Person of the Trustee or the Manager, such transaction shall be conducted at arm's length and executed on the best available terms, and the relevant entity shall be entitled to retain for its own use and benefit any fee or commission it receives on a commercial basis in connection with such arrangement (the securities lending fee will be disclosed in the connected party transaction section of the relevant Sub-Fund's annual financial reports). *C2(f)*

***Collateral***

Collateral received from counterparties should comply with the following requirements:

- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing; *7.36(a), C2A(a)*

- Valuation – collateral should be marked-to-market daily by using independent pricing source; *7.36(b), C2A(c)*

- Issuer credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the *7.36(c), C2A(a)*

effectiveness of the collateral;

- Haircut - collateral should be subject to prudent haircut policy which should be based on the market risks of the assets; *7.36(d), C2A(e)*

- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and a Sub-Fund's exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapter 7 of the Code; *7.36(e), C2A(f)*

- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs or the counterparty of securities financing transactions to the extent that it would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the financial derivative instruments or the counterparty of securities financing transactions or any of their related entities should not be used as collateral; *7.36(f), C2A(f)*

- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management; *7.36(g)*

- Independent custody – collateral must be held by the Trustee of the relevant Sub-Fund; *7.36(h), C2(g) C2A(j)*

- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs or the counterparty of securities financing transactions; *7.36(i), C2A(d)*

- Re-investment of collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged. Unless otherwise specified in respect of a particular Sub-Fund, up to 100% of the cash collateral received by a Sub-Fund may be reinvested; *7.36(j), C2A(h)*

- Encumbrances - collateral should be free of prior encumbrances; and *7.36(k)*

- Collateral should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes. *7.36(l)*

Subject to the requirements above, below is a summary of the collateral policy and criteria adopted by the Manager: *7.37, C2A*

- Eligible collateral include cash, cash equivalents, government bonds, supranational bonds, corporate bonds, stocks, funds and money market instruments;

- No maturity constraints will apply to the collateral received;

- Regular stress tests are carried out under normal and exceptional liquidity conditions to enable an adequate assessment of the liquidity risks attached to the collateral; and

- The maximum amount available for cash collateral re-investment does not extend beyond the value of the instrument in which such investment is initially made.

A description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Sub-Fund (by percentage) *7.38*

secured/covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Sub-Fund's annual and interim reports for the relevant period.

## HOW TO PURCHASE THE UNITS

### *How much are the Units?*

Initial Offer Period

During the Initial Offer Period, Units will be offered to investors at an initial offer price of:

- Class A USD Units / Class I USD Units / Class M USD Units: USD10 per Unit
- Class A HKD Units / Class A HKD (Hedged) Units / Class I HKD Units / Class I HKD (Hedged) Units / Class M HKD Units / Class M HKD (Hedged) Units: HKD10 per Unit
- Class A RMB Units / Class A RMB (Hedged) Units / Class I RMB Units / Class I RMB (Hedged) Units / Class M RMB Units / Class M RMB (Hedged) Units: RMB10 per Unit
- Class A EUR Units / Class A EUR (Hedged) Units / Class I EUR Units / Class I EUR (Hedged) Units: EUR10 per Unit
- Class A AUD Units / Class A AUD (Hedged) Units / Class I AUD Units / Class I AUD (Hedged) Units: AUD10 per Unit
- Class A NZD Units / Class A NZD (Hedged) Units / Class I NZD Units / Class I NZD (Hedged) Units: NZD10 per Unit

Class M Units are available for investment by managed accounts and other funds managed by the Manager or its associated entity(ies) or by other investors as agreed by the Manager.

Subsequent subscription

After the expiry of the Initial Offer Period, Units will be available for issue on any Dealing Day at the Subscription Price.

The Subscription Price of each class of Units on any Dealing Day will be the price per Unit of the respective class ascertained by dividing the Net Asset Value of the Sub-Fund attributable to the respective class of Units as at the Valuation Point in respect of the relevant Dealing Day by the number of the respective class of Units then in issue rounded to 2 decimal places (0.005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Sub-Fund. *C2B*

The Subscription Prices of each class of Units will be calculated in the Base Currency of the Sub-Fund (being USD). The Subscription Prices of Units denominated in currencies other than the base currency of the Sub-Fund (being USD) will then be converted into the relevant class currency at the exchange rate agreed by the Manager and the Trustee. *C9*

### *How to apply for Units?*

To purchase Units an applicant should complete the application form supplied with this Explanatory Memorandum and return a copy the same, together with the required supporting documents, to the Trustee (via an authorised distributor or the Manager) in the manner as set out in the application form.

Applications for Units during the Initial Offer Period, together with cleared funds, must be received by no later than 4:00 pm (Hong Kong time) on the last day of the Initial Offer Period. After the Initial

Offer Period, unless otherwise agreed by the Manager, applications must be received by Dealing Deadline.

The Manager or the Trustee may require the investor to submit originals of any documents submitted by fax or other electronic means from time to time determined by the Manager and the Trustee. Applicants who choose to send an application form by fax or other electronic means, bear the risk of the form not being received. Neither the Trustee nor the Manager will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by facsimile or other electronic means.

Unless otherwise agreed with the Manager, applications will be accepted only if cleared funds have been received on or prior to the relevant Dealing Deadline in relation to which Units are to be issued.

If payment in cleared funds is not received within 4 Business Days following the Dealing Day on which an application was received by the Dealing Deadline, the Manager may, at its discretion, consider the application void and cancelled. In such event the Trustee will be entitled to charge the applicant (and retain for its own account) a reasonable cancellation fee or such amount as it may determine to represent the costs involved in processing the application. The Manager may also require the applicant to pay to the Trustee, for the account of the Sub-Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Day exceeds the applicable Redemption Price on the date of cancellation.

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

Applicants may apply for Units through a distributor appointed by the Manager. Distributors may have earlier cut-off times for receipt of applications and/or cleared funds. Applicants who intend to apply for Units through a distributor should confirm the arrangements with the relevant distributor.

Where an applicant applies for Units through a distributor, the Manager and the Trustee will treat the distributor (or its nominee) as the applicant. The distributor (or its nominee) will be registered as holder of the relevant Units. The Manager and the Trustee will treat the distributor (or its nominee) as the Unitholder and shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the subscription, holding and realisation of Units and any related matters, as well as any costs or losses that may arise therefrom. The Manager will, however, take all reasonable care in the selection and appointment of distributors.

**No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on Type 1 (dealing in securities) regulated activity under Part V of the SFO.** *C12*

The Manager (upon consultation with the Trustee) has discretion to accept or reject in whole or in part any application for Units. In the event that an application is rejected, application monies will be returned without interest by cheque through the post or by telegraphic transfer at the risk of the applicant.

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the Sub-Fund is suspended (for details see “Suspension of determination of Net Asset Value” below). *C11*

***Investment Minima***

The following investment minima apply to the Sub-Fund: *C4* *C5*

| | *Minimum initial investment* | *Minimum subsequent investment* | *Minimum holding* | *Minimum redemption amount* |
|---|---|---|---|---|
| **Class A USD Units** | USD100 | USD100 | USD100 | USD100 |
| **Class A HKD Units and Class A HKD (Hedged) Units** | HKD1,000 | HKD1,000 | HKD1,000 | HKD1,000 |
| **Class A RMB Units and Class A RMB (Hedged) Units** | RMB1,000 | RMB1,000 | RMB1,000 | RMB1,000 |
| **Class A EUR Units and Class A EUR (Hedged) Units** | EUR100 | EUR100 | EUR100 | EUR100 |
| **Class A AUD Units and Class A AUD (Hedged) Units** | AUD100 | AUD100 | AUD100 | AUD100 |
| **Class A NZD Units and Class A NZD (Hedged) Units** | NZD100 | NZD100 | NZD100 | NZD100 |
| **Class I USD Units** | USD1,000 | USD1,000 | USD1,000 | USD1,000 |
| **Class I HKD Units and Class I HKD (Hedged) Units** | HKD10,000 | HKD10,000 | HKD10,000 | HKD10,000 |
| **Class I RMB Units and Class I RMB (Hedged) Units** | RMB10,000 | RMB10,000 | RMB10,000 | RMB10,000 |
| **Class I EUR Units and Class I EUR (Hedged) Units** | EUR1,000 | EUR1,000 | EUR1,000 | EUR1,000 |
| **Class I AUD Units and Class I AUD (Hedged) Units** | AUD1,000 | AUD1,000 | AUD1,000 | AUD1,000 |
| **Class I NZD Units and Class I NZD (Hedged) Units** | NZD1,000 | NZD1,000 | NZD1,000 | NZD1,000 |
| **Class M USD Units#** | USD1,000 | USD1,000 | USD1,000 | USD1,000 |
| **Class M HKD Units and Class M HKD (Hedged) Units #** | HKD10,000 | HKD10,000 | HKD10,000 | HKD10,000 |

| | | | | |
|---|---|---|---|---|
| **Class M RMB Units and Class M RMB (Hedged) Units #** | RMB10,000 | RMB10,000 | RMB10,000 | RMB10,000 |

# *Class M Units are available for investment by managed accounts and other funds managed by the Manager or its associated entity(ies) or by other investors as agreed by the Manager.*

The minimum initial and subsequent investment of each class of Units may change subject to the Manager's discretion.

***Are there any payment or account procedures?***

Subscription monies of each class of Units will be paid in the relevant class currency. Payment details are set out in the application form. Payment from third parties or in cash will not be accepted. The applicant is responsible for providing the relevant proof of payment.

***Units are in registered form*** *C6*

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance of ensuring that the Trustee is informed of any change to the registered details. Fractions of Units may be issued rounded to 2 decimal places (0.005 being rounded up). Subscription monies representing smaller fractions of a Unit will be retained by the relevant Sub-Fund. A maximum of 4 persons may be registered as joint Unitholders.

## HOW TO REDEEM THE UNITS

C9

### *How do I redeem my Units?*

Unitholders who wish to redeem their Units in the Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Trustee (via an authorised distributor or the Manager). Unless otherwise agreed by the Manager and the Trustee, a copy of such redemption request must be received by the Trustee before the Dealing Deadline.

Investors redeeming Units through a distributor or a nominee should submit their redemption requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have earlier cut-off times for receipt of redemption requests. Investors should confirm the arrangements with the relevant distributor or nominees.

Where an investor holds its investment in Units through a nominee, the investor wishing to redeem Units must ensure that the nominee, as the registered Unitholder, submits the relevant redemption request by the Dealing Deadline. Unless otherwise agreed by the Manager, redemption requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

A redemption request must be given in writing, by facsimile or via other electronic means and must specify the name of the Sub-Fund and the value or number of Units to be redeemed, the name(s) of the registered holder(s) and give payment instructions for the redemption proceeds. The Manager or the Trustee may require any redeeming Unitholder to submit originals of any documents submitted by fax or by email only before the payment of redemption proceeds are made. Neither the Manager nor the Trustee will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by facsimile or via other electronic means or for any loss caused in respect of any action taken as a consequence of such redemption request believed in good faith to have originated from properly authorised persons.

Partial redemption of a holding of Units in the Sub-Fund may be effected provided that such redemption will not result in the Unitholder holding less than the minimum investment as set out under the “Investment Minima” section above (unless otherwise agreed by the Manager). The Manager has the right to compulsorily redeem any holding of Units which is less than such minimum holding. Unless otherwise agreed by the Manager, a request for a partial redemption of Units with value of less than the minimum redemption amount as set out under the “Investment Minima” section above will not be accepted.

### *How will redemption proceeds be paid to me?*

C2B

The Redemption Price of each class of Units on any Dealing Day will be the price per Unit of the respective class ascertained by dividing the Net Asset Value of the Sub-Fund attributable to the respective class of Units as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of the respective class then in issue rounded to 2 decimal places (0.005 being rounded up) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager after consulting the Trustee. Any rounding adjustment will be retained by the Sub-Fund.

The Redemption Prices of each class of Units will be calculated in the Base Currency of the Sub-Fund (being USD). The Redemption Prices of Units denominated in currencies other than the base currency of the Sub-Fund (being USD) will then be converted and quoted in the relevant class currency at the exchange rate agreed by the Manager and the Trustee.

In determining the Redemption Price of each of Class A Units, Class I Units and Class M Units, in certain extraordinary scenarios such as where there is a large realisation request by a single

investor, the Manager is entitled to deduct an amount which it considers represents an appropriate provision for (a) estimated bid/offer spread of the investments of the Sub-Fund, (b) extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees or registration fees, and (c) other charges which are customarily incurred in realising the assets of the Sub-Fund to meet any redemption request. Any such deducted amount will be retained by the Sub-Fund and will form part of the assets of the Sub-Fund.

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

The amount due to a Unitholder on the redemption of a Unit will be the Redemption Price, less any redemption charge (if any) and where applicable, the provision as described above. The redemption charge will be retained by the Manager.

Redemption proceeds will not be paid to any redeeming Unitholder until the signature of the Unitholder (or each joint Unitholder) on the redemption request has been verified to the satisfaction of the Trustee.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the relevant class currency, by telegraphic transfer, within 10 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units, unless the payment of redemption proceeds within the aforesaid time period not practicable due to (a) the performance of any anti-money laundering or similar checks or (b) the markets in which a substantial portion of the Sub-Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls). Any bank charges associated with the payment of such redemption proceeds will be borne by the redeeming Unitholder. *C10*

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be made. Investors redeeming Units through a distributor or a nominee are reminded that payments will be made to such distributor or nominee's account on the same Dealing Day on which a proper redemption request is accepted and that there is no assurance that the distributor or nominee can pay such redemption proceeds to the investors' bank account on the same Dealing Day. The Manager and the Trustee shall not be responsible for any arrangements between the investor and the distributor regarding the realisation of Units and any related matters, as well as any costs or losses that may arise therefrom.

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

***Are there any restrictions on redemption?*** *C2C(c)*

The Manager may suspend the redemption of Units, or delay the payment of redemption proceeds in respect of any redemption request received, during any periods in which the determination of the Net Asset Value of the Sub-Fund is suspended (for details see "Suspension of determination of Net Asset Value" below). *C11*

With a view to protecting the interests of Unitholders, the Manager is entitled to limit the number of Units of the Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units of the Sub-Fund in issue. In this

event, the limitations will apply pro rata so that all Unitholders wishing to redeem Units of the Sub-Fund on that Dealing Day will redeem the same proportion of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption on the next succeeding Dealing Day based on the Redemption Price on such Dealing Day, subject to the same limitation, and will have priority on such Dealing Day over subsequent redemption requests received in respect of such Dealing Day. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned.

***Restrictions on Unitholders and compulsory redemption***

The Manager has power to impose such restrictions as it may think necessary or desirable for the purpose of ensuring that no Units are acquired or held directly, indirectly or beneficially by any person or persons:

(a) who is a US person;

(b) in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the opinion of the Manager, might result in the Manager, the Trustee or the Sub-Fund incurring or suffering any liability to taxation or suffering any other potential or actual pecuniary disadvantage or would subject the Manager, the Trustee or the Sub-Fund to any additional regulation to which the Manager, the Trustee or the Sub-Fund might not otherwise have incurred or suffered or been subject; or

(c) in breach of any applicable law or applicable requirements of any country/region or governmental authority.

Upon notice that any Units are so held, the Trustee or the Manager may give notice to the relevant Unitholder requiring him to transfer such Units to a person who would not thereby be in contravention of any such restrictions as aforesaid or may give a request in writing for the redemption of such Units in accordance with the terms of the Trust Deed. If any Unitholder upon whom such a notice is served pursuant to the Trust Deed does not, within 30 days of such notice, transfer or redeem such Units as aforesaid or establish to the satisfaction of the Trustee or the Manager (whose judgment shall be final and binding) that such Units are not held in contravention of any such restrictions he shall be deemed upon the expiry of the 30 day period to have given a request in writing for the redemption of all such Units.

## SWITCHING

The Manager may from time to time permit Unitholders to switch some or all of their Units of any class of the Sub-Fund (the "**Existing Class**") into units of another class of the Sub-Fund or of another sub-fund of the Trust which has been authorised by the SFC (the "**New Class**"), subject to the payment of a switching fee. *C9*

Unitholders may request such a switch by giving notice in writing, by facsimile or via other electronic means to the Trustee. Requests received by the Trustee prior to the Dealing Deadline, or such later time as the Manager may agree, in respect of a Dealing Day will be dealt with on that Dealing Day. Neither the Manager nor the Trustee shall be responsible to any Unitholder for any loss resulting from the non-receipt or duplicate receipt of a request for switching or any amendment to a request for switching prior to receipt.

Unless otherwise agreed by the Manager, a request for the switching of part of a holding of Units will not be effected if, as a result, the Unitholder would hold less than the minimum holding of the Existing Class as specified in the section entitled "Investment Minima" above, or less than the minimum holding of units of the New Class (if applicable).

The Manager is entitled to impose a switching fee for each Unit switched. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager. Details of the switching fee (if any) are set out in the section headed "Fees and Expenses" below.

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

- Units of the Existing Class will be redeemed by reference to the Redemption Price on that Dealing Day (the "**Switching Redemption Day**");

- where the Existing Class and the New Class have different currencies of denomination, the redemption proceeds of the Units of the Existing Class shall, after deduction of any switching fee, be converted into the currency of denomination of the New Class based on the exchange rate agreed by the Manager and the Trustee; and

- the resulting amount will be used to subscribe for units of the New Class at the relevant subscription price on a Switching Redemption Day on which the redemption money is settled.

The Manager may suspend the switching of Units during any period in which the determination of the Net Asset Value of the Sub-Fund is suspended (for details see "Suspension of determination of Net Asset Value" below). *C11*

## DETERMINATION OF NET ASSET VALUE



### *Calculation of Net Asset Value*

The Net Asset Value of the Sub-Fund attributable to each class of Units will be determined by the Trustee as at each Valuation Point by valuing the assets of the Sub-Fund and deducting the liabilities of the Sub-Fund, in accordance with the terms of the Trust Deed.

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

(a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by the Trustee by reference to the last traded price or the latest available "exchange close" price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed or normally dealt in on more than one such market, the price adopted shall be the last traded price or the latest available exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or, if the Trustee so requires, by the Manager after consultation with the Trustee; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Trustee and the Manager shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;

(b) the value of any investment (other than a commodity, futures contract or an interest in a collective investment scheme) which is not quoted, listed or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses), and thereafter the value as assessed by the Trustee on the latest revaluation thereof, provided that a revaluation shall be made on each Valuation Day by reference to the latest bid price, asked price or mean thereof, as the Trustee and the Manager consider appropriate, quoted by a professional person, firm or institution approved by the Trustee as qualified to value such investments;

(c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest);

(d) the value of any commodity or futures contract shall be ascertained by the Trustee in accordance with the following:

    (i) if a commodity or futures contract is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Trustee, in consultation with the Manager, shall consider appropriate;

    (ii) if any such price as referred to in (i) is not ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity or futures contract provided by a firm or institution making a market in such commodity or futures contract;

(iii) the value of any futures contract (the "**relevant Contract**"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Sub-Fund in order to close the relevant Contract and the amount expended by the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Sub-Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended by the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and

(iv) if the provisions of (i) and (ii) do not apply to the relevant commodity contract, then the value shall be determined in accordance with (b) above as if such commodity contract were an unquoted investment;

(e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day, or if the Manager and the Trustee so determines, or if such collective investment scheme is not valued as at the same day as the Sub-Fund, shall be the last published net asset value per unit share or other interest in such collective investment scheme;

(f) notwithstanding paragraphs (a) to (e) above, the Manager may, with the prior consent in writing of the Trustee, adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to fairly reflect the value of the investment; and *C2B*

(g) the value of any investment (including of a borrowing or other liability or cash) in a currency other than the Base Currency will be converted into the Base Currency at the rate (official or otherwise) which the Trustee shall deem appropriate in the circumstances.

The above is a summary and is therefore limited by its nature. Investors are encouraged to review the specific provisions of the Trust Deed in relation to valuation of assets.

***Suspension of determination of Net Asset Value*** *C11*

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

(a) one or more markets on which a significant portion of the assets of the Sub-Fund is listed, quoted, traded or dealt in are closed (other than customary weekend and holiday closing) or trading in any such markets is restricted or suspended; or

(b) a breakdown occurs in any of the means normally employed in ascertaining the value of any investment of the Sub-Fund; or

(c) for any other reason the value of any of the investments or other assets of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or

(d) a breakdown occurs in any of the systems and/or means of communication normally employed in ascertaining the Net Asset Value of the Sub-Fund attributable to any class of Units or the Net Asset Value per Unit of any class of Units, Subscription Price or Redemption Price of any class of Units, or when for any other reason the Net Asset Value of the Sub-Fund attributable to any class of Units or the Net Asset Value per Unit of any class of Units, Subscription Price, or Redemption Price of any class of Units cannot be ascertained in a prompt or accurate manner; or

(e) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of the relevant Holders; or

(f) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the Sub-Fund or the issue or redemption of any class of Units in the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or

(g) the business operations of the Manager, the Trustee or any agent of the Manager or the Trustee in relation to the operations of the Trust and/or the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or

(h) the issue, redemption or transfer of any class of Units of the Sub-Fund would result in the violation of any applicable law or a suspension or extension is, in the opinion of the Manager, required by any applicable law or applicable legal process.

Any suspension shall take effect immediately upon its declaration and thereafter there shall be no determination of the Net Asset Value of the Sub-Fund attributable to the relevant class(es) of Units, and/or the issue and/or switching and/or redemption of the relevant class(es) of Units, and/or payment of redemption moneys, as the case may be, until the suspension is terminated on the earlier of (i) the Manager declaring the suspension at an end and (ii) the first Dealing Day on which (1) the condition giving rise to the suspension shall have ceased to exist and (2) no other condition under which suspension is authorised exists.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at http://www.dcfund.hk (this website has not been reviewed by the SFC).

During any period of suspension of the Net Asset Value attributable to any class of Units, no Units of the relevant class will be issued, switched or redeemed.

***Publication of Net Asset Value*** *C8*

The latest Subscription Price and the Redemption Price of each class of Units (or the latest Net Asset Value per Unit of each class) will be available (in the relevant currency) on the Manager's website at http://www.dcfund.com.hk (this website has not been reviewed by the SFC).

## FEES AND EXPENSES

There are different levels of fees and expenses applicable to investing in the Sub-Fund as set out below, current as at the date of this Explanatory Memorandum.

***Fees payable by Unitholders*** *C14(a)*

Preliminary charge

The Manager is entitled to impose a preliminary charge on the issue of units of any sub-fund of up to 5% of the subscription price of such units. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the preliminary charge (either generally or in any particular case).

In relation to Class A Units, the Manager intends to impose a preliminary charge of up to 3% of the applicable Subscription Price in respect of each Unit. No preliminary charge is imposed for Class I Units and Class M Units. The preliminary charge is payable in addition to the Subscription Price per Unit and will be retained by or paid to the Manager. The Manager may pay to approved distributors a proportion of this preliminary charge, based on the value of the relevant business introduced to the Sub-Fund.

Redemption charge

The Manager is entitled to impose a redemption charge on the redemption of units of any sub-fund of up to 2% of the redemption price of such units.

In relation to Class A Units, Class I Units, and Class M Units, the Manager currently does not intend to impose any redemption charge. The Manager will notify investors prior to the imposition of any redemption charge in respect of Class A Units, Class I Units, or Class M Units.

The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the redemption charge (either generally or in any particular case).

Switching fee

The Manager is entitled to impose a switching fee on the switching of units of up to 2% of the redemption price of each unit of the Existing Class being switched. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the switching fee (either generally or in any particular case).

***Fees and expenses payable by the Sub-Fund*** *C14(b)*

Management fee

The Trust Deed provides that the Manager is entitled to a management fee in respect of the Sub-Fund, the maximum amount of which is equal to 2% per annum of the Net Asset Value of the Sub-Fund.

In relation to the Sub-Fund, the Manager intends to charge a management fee of 1.00% per annum of the Net Asset Value of the Sub-Fund attributed to Class A Units and a management fee of 0.70% per annum of the Net Asset Value of the Sub-Fund attributed to Class I Units. No management fee is charged in respect of Class M Units. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

*C14(c)*

Any increase in the rates of management fee will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders. No increase beyond the maximum management fee stated in the Trust Deed may occur without Unitholders' approval.

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

The Investment Advisor will be reimbursed out of the Manager's management fee.

Performance Fee

The Manager does not charge performance fees in respect of the Sub-Fund.

Trustee Fee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of the Sub-Fund, the maximum amount of which is equal to 0.5% per annum of the Net Asset Value of the Sub-Fund. The trustee fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Trustee will be paid a fee of 0.11% per annum of the Net Asset Value of the Sub-Fund. The trustee fee is subject to a monthly minimum of USD5,000. Any increase in this rate of trustee fee will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders. No increase beyond the maximum trustee fee stated in the Trust Deed may occur without Unitholders' approval. *C14(c)*

Fee payable to the Custodian

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

The Custodian will be paid a custody fee of up to 0.10% per annum of the Net Asset Value of the Sub-Fund. Any increase in these fees will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Unitholders. *C14(c)*

Promotional Expenses

The Sub-Fund will not be responsible for any promotional expenses including those incurred by any marketing agents and any fees imposed by such marketing agents on their customers investing in the Sub-Fund will not be paid (either in whole or in part) out of the Trust Fund of the Trust or attributable to the Sub-Fund.

Other Expenses

The Sub-Fund will bear all operating costs relating to the administration of the Sub-Fund including but not limited to stamp and other duties, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges and other costs and expenses payable in respect of the acquisition, holding and realization of any investment or any monies, deposit or loan, charges and expenses of its legal counsel, auditors and other professionals, the costs in connection with maintaining the Trust's and the Sub-Fund's authorisation under the SFO, any disbursements or out-of-pocket expenses properly incurred on behalf of the Sub-Fund by the Trustee or the Manager

or any of their service providers, the expenses incurred in convening meetings of Unitholders, printing and distributing annual and half-yearly reports, accounts and other circulars relating to the Sub-Fund and the expenses of publishing Unit prices.

***Establishment Costs***

The costs of establishing the Sub-Fund is estimated to be approximately HKD382,000. These costs will be charged to the Sub-Fund and will be amortised over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager).

## RISK FACTORS

C2

**The nature of the Sub-Fund's investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of the Sub-Fund will be achieved. The risk factors set forth below are intended to be those material risks which are believed by the Manager and its directors to be presently applicable to the Sub-Fund. The risk factors below do not offer advice on the suitability of investing in the Sub-Fund. Prospective investors should carefully evaluate the merits and risks of an investment in the Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisors before making any investment in the Sub-Fund.**

C19(b)

***Investment risks***

Investment objective risk

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

Whilst it is the intention of the Manager to implement strategies which are designed to achieve the investment objective, there can be no assurance that these strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques. Accordingly, there is a risk that investors may not recoup the original amount invested in the Sub-Fund or may lose a substantial part or all of their initial investment.

Investment risk

Investors should be aware that investment in the Sub-Fund is subject to normal market fluctuations and other risks inherent in the underlying assets into which the Sub-Fund may invest. There can be no assurance that any appreciation in value of investments will occur.

Market risk

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

Emerging market risk

The Sub-Fund may invest in emerging markets, such as the PRC, which subject the Sub-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 (including risks arising from settlement procedures), greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

Concentration risk

The Sub-Fund may invest globally without geographical restrictions but may invest significantly in any one region or country or any one industry sector. This may result in greater volatility and potential settlement difficulties than portfolios which comprise broad-based global investments and thereby may adversely affect the value of the Sub-Fund. The value of the Sub-Fund may therefore

be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Sub-Fund may also be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the relevant market.

Risk of investing in debt securities

*Interest rate risk*: The Sub-Fund's investment in debt securities is subject to interest rate risk. Generally, the value of debt securities will change inversely with changes in interest rates. As interest rates rise, market value of debt securities tends to fall. Long-term debt securities in general are subject to higher sensitivity to interest rate changes than short-term debt securities. Any increase in interest rates may adversely impact the value of the Sub-Fund's fixed income portfolio.

*Credit/counterparty risk*: Investment in debt securities is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest. In general, debt securities that have a lower credit rating will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the debt securities held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's Net Asset Value will be adversely affected and investors may suffer a substantial loss as a result.

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

*Valuation risk:* Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of debt securities, including corporate bonds and commercial papers, may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

*Risks of credit rating downgrades*: Credit rating of debt securities or that of their issuers may be downgraded. In the event of downgrading in the credit rating of an instrument or that of its issuer, the Sub-Fund's investment value in such instrument may be adversely affected. If the Sub-Fund continues to hold such securities, it will be subject to additional risk of loss. The Manager may or may not be able to dispose of the instruments that are being downgraded at a reasonable price or at all.

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

Risk associated with below investment grade debt securities and unrated debt securities / liquidity risk

The Sub-Fund may invest in below investment grade debt securities and/or unrated debt securities where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by the Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no

willing buyer and the investments cannot be readily sold at the desired time or price, and the Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Sub-Fund's value or prevent the Sub-Fund from being able to take advantage of other investment opportunities.

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

Investment in debt securities will be especially subject to the risk that during certain periods, the liquidity of particular issuers or industries, or all securities within a particular investment category, will shrink or disappear suddenly and without warning as a result of adverse economic, market or political events, or adverse investor perceptions whether or not accurate.

For unlisted bonds, in the absence of a regular and active secondary market, the Sub-Fund may not be able to sell its bond holdings at prices the Manager considers advantageous and may need to hold the bonds until their maturity date. If sizeable redemption requests are received, the Sub-Fund may need to liquidate its listed bonds at a discount in order to satisfy such requests and the Sub-Fund may suffer losses. The Manager seeks to control the liquidity risk of the Sub-Fund's bond portfolio by a series of internal management measures in order to meet Unitholders' redemption requests.

"Dim Sum" bonds risk

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

Risks associated with bank deposits

Bank deposits are subject to the credit risks of the relevant financial institutions. The Sub-Fund's deposit may not be protected by any deposit protection schemes, or the value of the protection under the deposit protection schemes may not cover the full amount deposited by the Sub-Fund. Therefore, if the relevant financial institution defaults, the Sub-Fund may suffer losses as a result.

Risks of investing convertible bonds

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

Risks relating to sale and repurchase transactions

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

Risks relating to reverse repurchase transactions

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

Risks associated with investments in debt instruments with loss-absorption features (LAP)

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

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

Risks associated with senior non-preferred debts

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

Risks associated with perpetual bonds

There are risks associated with perpetual bonds. The Sub-Fund is subject to perpetual credit risk and counterparty risk exposure. As time progresses, issuers of such perpetual bonds can encounter financial difficulties, and may even shut down. Perpetual bonds may also be subject to call risk as the issuers can recall them. Perpetual bonds are subject to interest risk as the perpetual bond may be locked in interest which is significantly lower than the prevailing interest rate. Under such circumstances, the Sub-Fund could earn more money by holding a different bond than the perpetual bond. However, unlike for other bonds that have a maturity date when the issuer returns the principal, for perpetual bonds, to swap out an old perpetual bond for a newer, higher interest bond, the Sub-Fund must sell the existing bond on the secondary market, at which time it may be worth less than the purchase price as the Sub-Fund may need to discount the offer price based on the interest rate difference. As selling in the secondary market is the only option available, perpetual bonds may therefore be subject to liquidity risk and the bid-ask spread will be high.

Risks associated with instruments with contingent convertible bonds ("CoCos")

CoCos are hybrid capital securities that absorb losses when the capital of the issuer falls below a certain level. Upon the occurrence of a predetermined event (known as a trigger event), CoCos will be converted into shares of the issuing company (potentially at a discounted price as a result of the deterioration in the financial condition of the issuing company), or cause the permanent write-down to zero of the principal investment and/or accrued interest such that the principal amount invested may be lost on a permanent or temporary basis. They are risky and highly complex investment instruments. Coupon payments on CoCos are discretionary and may at times also be ceased or deferred by the issuer. Trigger events can vary but these could include the capital ratio of the issuing company falling below a certain level, or the share price of the issuer falling to a particular level for a certain period of time.

*Trigger level risk*: Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the triggering events that would require the conversion into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include:

(i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

*Coupon cancellation*: Coupon payments on some CoCos are entirely discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time. The discretionary cancellation of payments is not an event of default and there are no possibilities to require re-instatement of coupon payments or payment of any passed missed payments. Coupon payments may also be subject to approval by the issuer's regulator and may be suspended in the event there are insufficient distributable reserves. As a result of uncertainty surrounding coupon payments, these instruments may be volatile and their price may decline rapidly in the event that coupon payments are suspended.

*Capital structure inversion risk:* Contrary to the classic capital hierarchy, investors in CoCos may suffer a loss of capital when equity holders do not suffer the same (for example, when the loss absorption mechanism of CoCos is activated). This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

*Call extension risk:* Some CoCos are issued as perpetual instruments and only callable at pre-determined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual convertible securities will be called on a call date. Such convertible securities are a form of permanent capital. The Sub-Fund may not receive return of principal as expected on call date or indeed at any date.

*Conversion risk:* Trigger levels differ between specific instruments, which determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the instruments will behave upon conversion. These instruments may be converted into shares potentially at a discounted price, or the principal amount invested may be lost. In case of conversion into equity, the Manager might be forced to sell these new equity shares. Given the trigger event is likely to be some event depressing the value of the issuer's common equity, this forced sale may result in the Sub-Fund experiencing loss of all investments in CoCos.

*Write-down/write-off risk:* In some cases, the issuer of CoCos may cause the convertible security to be written-down or written-off in value based on the specific terms of the individual security if a pre-specified trigger event occurs. Therefore, upon the occurrence of a trigger event, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

*Valuation risk:* Instruments subject to compulsory conversion with non-viability / loss absorption convertible features often offer attractive yield which may be viewed as a complexity premium. The value of such instruments may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets.

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

*Liquidity risk:* In certain circumstances finding a buyer ready to invest in CoCos may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

*Sector concentration risk:* CoCos are issued by banking and insurance institutions. Investment in CoCos may lead to an increased sector concentration risk. The performance of the Sub-Fund will depend to a greater extent on the overall condition of the financial services industry than for the Sub-Fund following a more diversified strategy.

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

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

Risks associated with urban investment bonds

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

Risks associated with PRC debt securities

*Investment risks of PRC debt securities*: The Sub-Fund may invest in debt securities issued or distributed within the PRC. The financial market of the PRC is at an early stage of development, and many of such PRC debt securities may be subject to greater risks because of generally reduced liquidity, greater price volatility and greater credit risk. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in the PRC and therefore not subject to the laws of Hong Kong.

*PRC sovereign debt risk:* The Sub-Fund's investments may include sovereign debt securities and such investments involve special risks. The Chinese governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A Chinese governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the Chinese governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject. Chinese governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a Chinese governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the Chinese governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their sovereign debt. Holders of PRC sovereign debt, including the Sub-Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. As at the date of this Explanatory Memorandum, there is no bankruptcy proceeding by which sovereign debt on which a Chinese governmental entity has defaulted may be collected in whole or in part. The Sub-Fund's recourse against a defaulting sovereign is limited.

In addition, a lowering of the credit rating of the Chinese government may also affect the liquidity of its sovereign debt securities, making it more difficult to sell. In general, debt instruments that have a lower credit rating or that are non-rated will be more susceptible to the credit risk of the issuers. In the event of a credit rating downgrade of the Chinese government, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result.

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

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

Risks associated with collateralised and/or securitised products (such as asset backed securities, mortgage backed securities and asset backed commercial papers)

The Sub-Fund may invest in the collateralised and/or securitised products e.g. asset backed securities and structured deposits and structured products which may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities. They are often exposed to extension and prepayment risks and risks that the payment obligations relating to the underlying assets are not met, which may adversely impact the returns of the securities.

Risks associated with structured products

*Issuer default risk:* In the event that a structured product issuer becomes insolvent and defaults on their listed securities, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer. Investors should therefore pay close attention to the financial strength and credit worthiness of structured product issuers.

*Uncollateralised product risk*: Uncollateralised structured products are not asset backed. In the event of issuer bankruptcy, investors can lose their entire investment. Investors should read the listing documents to determine if a product is uncollateralised.

*Gearing risk*: Some structured products are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. Investors should be aware that their value may fall to zero resulting in a total loss of the initial investment. The level of gearing embedded in an inline warrant depends on a variety of factors including but not limited to time-to-expiry and spot price of the underlying asset compared to the lower and upper strike prices. An inline warrant will be expected to have a high effective gearing when trading price close to the lower or upper strike price, and a relatively low effective gearing in other cases. These differences in effective gearing are amplified when inline warrants are close to expiry.

*Expiry considerations:* Structured products have an expiry date after which the issue may become worthless. Investors should be aware of the expiry time horizon and choose a product with an appropriate lifespan for their trading strategy.

*Extraordinary price movements*: The price of a structured product may not match its theoretical price due to outside influences such as market supply and demand factors. As a result, actual traded prices can be higher or lower than the theoretical price.

*Foreign exchange risk:* Investors trading structured products with underlying assets not denominated in the Base Currency are also exposed to exchange rate risk. Currency rate fluctuations can adversely affect the underlying asset value, also affecting the structured product price.

Risks associated with restrictions on redemption

Investors should note that certain restrictions are imposed on the redemption of Units. In particular, the Manager is entitled to limit the number of Units of the Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the Sub-Fund in issue. A Unitholder may therefore not be able to redeem all of their holdings on a particular Dealing Day. Please refer to the section "Are there any restrictions on redemption?" for further details.

Payment of redemption proceeds

Investors should note that payment of redemption proceeds will only be made to a bank account in the name of the Unitholder. No third party payments will be made. Investors redeeming Units through a distributor or a nominee are reminded that payments will normally be made to such distributor or nominee's account within 10 Business Days after the relevant Dealing Day on which a proper redemption request is accepted and that there is no assurance that the distributor or nominee can pay such redemption proceeds to the investors' bank account on the same day.

Liquidity risk

*C2C(a)*

The Sub-Fund may invest in securities where the volume of transactions may fluctuate significantly depending on market sentiment. There is a risk that investments made by the Sub-Fund may become less liquid in response to market developments or adverse investor perceptions. In extreme market situations, there may be no willing buyer and the investments cannot be readily sold at the desired time or price, and the Sub-Fund may have to accept a lower price to sell the investments or may not be able to sell the investments at all. An inability to sell a portfolio position can adversely affect the Sub-Fund's value or prevent the Sub-Fund from being able to take advantage of other investment opportunities. *C2(h), C2A(k)*

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

Counterparty risk

The Sub-Fund is subject to the risk of the inability of any counterparty (including any custodian(s)) to perform with respect to transactions, whether due to insolvency, bankruptcy or other circumstances. The Sub-Fund is also subject to the risk that counterparties may not have access to finance and/or assets at the relevant time and may fail to comply with their obligations under the relevant sale and repurchase agreements. Recent well-publicised weaknesses in certain financial institutions may be indicative of increased counterparty risk. In the event of any counterparty (including a custodian) entering an insolvency procedure, the Manager could experience delays in liquidating the Sub-Fund's positions and incur significant losses, including the loss of that portion of the Sub-Fund's portfolio financed through such a transaction, a decline in value of its investment during the period in which the Manager seeks to enforce its rights, an inability to realise any gains on its investment during such period and fees and expenses incurred in enforcing its rights. *C26*

Dividends risk

There is no assurance that the Sub-Fund will declare to pay dividends or distributions. The ability of the Sub-Fund to pay distributions also depends on dividends declared and paid by issuers of the securities which the Sub-Fund has invested and the level of fees and expenses payable by the Sub-Fund. The ability of the issuers of securities to make dividend payments and the level of dividends, if any, declared by the issuers of securities are based on numerous factors, including their current financial condition, general economic conditions and, where applicable, their dividend policies. There can be no assurance that such companies will be able to honour payment obligations, declare dividends or make other distributions.

The Manager may, in its discretion, pay distributions out of capital, or out of gross income while charging/paying all or part of the Sub-Fund's fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund may effectively pay distributions out of capital. This may reduce the capital that the Sub-Fund has available for investment in future and may constrain capital growth.

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

The distribution amount and the Net Asset Value of the hedged unit classes may be adversely affected by the differences in the interest rates of the reference currency of the hedged unit classes and the Sub-Fund's base currency, resulting in an increase in the amount of distribution that is paid out of capital and hence a greater erosion of capital than other non-hedged unit classes.

Operational and settlement risks

The Sub-Fund is subject to operational risks that may arise from any breaches by the Manager's investment management staff of the Manager's operational policies or technical failures of communication and trading systems. Whilst the Manager has in place internal control systems, operational guidelines and contingency procedures to reduce the chances of such operational risks, there is no guarantee events beyond the control of the Manager (such as unauthorised trading, trading errors or system errors) will not occur. The occurrence of any such events may adversely affect the value of the Sub-Fund.

Risk of investing in financial derivative instruments

The Sub-Fund may from time to time utilise financial derivative instruments for hedging purposes. The use of derivatives exposes the Sub-Fund to additional risks, including: (a) volatility risk (derivatives can be highly volatile and expose investors to a high risk of loss); (b) leverage risk (as the low initial margin deposits normally required to establish a position in derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (c) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (d) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (e) counterparty risk (the Sub-Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (f) valuation risks (the pricing relationships between derivatives and the underlying instruments on which they are based may not conform to anticipated or historical correlation patterns; it may also be difficult to value derivatives, especially over-the-counter derivatives, so their prices may be volatile); (g) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the

insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (h) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

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

Over-the-counter markets risk

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

Hedging risk

The Manager is permitted, but not obliged, to use hedging techniques to attempt to offset market risks. There is no guarantee that the desired hedging instruments will be available or hedging techniques will achieve their desired result.

Restricted markets risk

The Sub-Fund may invest in securities in restricted markets which impose limitations or restrictions on foreign ownership or holdings. Such legal and regulatory restrictions or limitations may have adverse effects on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

Currency risk

Assets held by the Sub-Fund may be denominated in various currencies that are different from the Base Currency and the Net Asset Value of the Sub-Fund may be strongly influenced by movements in exchange rates regardless of the performance of its underlying portfolio. The Sub-Fund may be adversely affected by changes in exchange rates between the currencies in which the assets of the Sub-Fund are held and the Base Currency. In addition, any Class not denominated in the Base Currency is exposed to possible adverse currency fluctuations between its currency of denomination and the Base Currency.

The Manager may or may not hedge any foreign exchange risk in respect of the Sub-Fund, although the Manager will ensure that any currency risk will be appropriately managed and any material currency risk will be appropriately hedged. Investors should take into account the potential risk of loss in respect of subscriptions, redemptions and dividends arising from fluctuations in value between currencies.

RMB currency risk and RMB denominated Classes risk

The Sub-Fund offers RMB denominated Classes of Units. RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies of and repatriation restrictions imposed by the Mainland Chinese government. If such policies change in future, the Sub-Fund's or the investors' position may be adversely affected.

There is no assurance that RMB will not be subject to devaluation, in which case the value of investors' investments will be adversely affected. If investors convert HKD or any other currency into RMB so as to invest in the Sub-Fund and subsequently convert the RMB redemption proceeds back into HKD or any other currency, they may suffer a loss if RMB depreciates against HKD or other currency. Non-RMB based investors who invest in RMB denominated Classes are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currency will not depreciate. Any depreciation of RMB could adversely affect the value of investors' investment in the RMB denominated Classes of Units.

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

The RMB is traded in both the onshore and offshore markets. Whilst both onshore RMB (CNY) and offshore RMB (CNH) represent the same currency, they are traded in different and separate markets which operate independently. Therefore CNY and CNH do not necessarily have the same exchange rate and their movement may not be in the same direction. Any divergence between CNH and CNY may adversely impact investors.

Hedged RMB, EUR, AUD and NZD denominated Classes risk

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

Hedged RMB, EUR, AUD and NZD denominated Classes will hedge the Sub-Fund's Base Currency back to RMB, EUR, AUD or NZD (as the case may be), on a best effort basis, with an objective to align the performance of the hedged RMB, EUR, AUD and NZD denominated Classes to that of the equivalent Class denominated in the Sub-Fund's Base Currency. This strategy may preclude the hedged RMB, EUR, AUD and NZD denominated Classes from benefiting from any potential gain resulting from the appreciation of the Base Currency against RMB, EUR, AUD or NZD (as the case may be). Please also refer to the risk factor headed "Hedging risk".

***PRC related risks***

Economic, political and social risks

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

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

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

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

Investing in the PRC subjects the Sub-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.

The performance of PRC companies are correlated to the growth rate of the PRC economy, which in turn depend on the worldwide economic conditions, which have recently deteriorated significantly in many countries and regions and may remain depressed for the foreseeable future. There are many factors affecting the growth of the economy, including but not limited to interest rates, currency exchange rates, economic growth rate, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. There can be no assurance that historical growth rates of the PRC economy will continue. Any future slowdowns or declines in the PRC economy may materially and adversely affect the business of the PRC companies and as a result the performance of the Sub-Fund.

PRC laws and regulations risk

The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have no precedent value. 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 went into effect on 1 October 1999, and the Securities Law of the PRC, which went into effect on 1 July 1999. However, because these laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

Accounting and reporting standards risk

Accounting, auditing and financial reporting standards and practices applicable to PRC companies may be different to those standards and practices applicable to countries that have more developed financial markets. For example, there are differences in the valuation methods of properties and assets and in the requirements for disclosure of information to investors.

PRC taxation risk

There can be no guarantee that new tax laws, regulations and practice in the PRC specifically relating to the QFI regime, Stock Connect or Bond Connect may be promulgated in the future. The promulgation of such new laws, regulations and practice may operate to the advantage or disadvantage of the Unitholders.

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

Please refer to the PRC tax risks and considerations set out in the sub-section entitled "PRC Taxation" under the section headed "TAXATION" in this Explanatory Memorandum.

Changes in PRC taxation risk

The PRC Government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies.

***QFI regime related risks***

QFI system risk

There is no certainty as to how the regulations which regulate investments by QFIs in the PRC and the repatriation of capital from QFI investments will be applied or interpreted as the PRC authorities and regulators have been given wide discretion in such investment regulations and there is no certainty as to how such discretion may be exercised now or in the future.

In addition, the Sub-Fund is exposed to the credit risk of the relevant onshore PRC sub-custodians and brokers, and a default of any such PRC sub-custodian or broker may cause significant losses. Onshore PRC securities acquired by a QFI for the account of the Sub-Fund are registered in the name of "Da Cheng International Asset Management Co., Ltd. – Da Cheng Global Select Bond Fund" in accordance with the relevant rules and regulations, and maintained in electronic form via a securities account with the CSDCC. The account is required to bear the name of "Da Cheng Global Select Bond Fund" as this is the name under which the QFI is approved by SAFE. The QFI selects PRC brokers (each a "**PRC Broker**") to act on its behalf in the onshore PRC securities markets as well as the PRC sub-custodian to maintain its assets in safe custody.

In the event of any default of either a PRC Broker or the PRC sub-custodian in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC, the Sub-Fund may encounter delays in recovering its assets which may in turn impact the net asset value of the Sub-Fund.

QFI regulation/status risk

Changes to the foreign investment regulation in the PRC may be made at any time by the CSRC and the SAFE, and such changes may have a detrimental impact on the ability of the Sub-Fund to achieve its investment objective. Changes of the relevant rules may have potential retrospective effect, which may affect the Sub-Fund's ability to acquire securities in the PRC via the QFI regime.

There can be no assurance that the QFII/RQFII status of the Manager will not be suspended, revoked or invalidated. Such event may lead to substantial loss in the Sub-Fund as it may hinder the ability of the Sub-Fund to invest in onshore PRC instruments and affect the implementation of the investment strategy of the Sub-Fund.

Repatriation risk

Repatriations by QFIs conducted in RMB for a fund such as the Sub-Fund are not subject to any restrictions, lock-up periods or prior approval. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from Unitholders.

***Risks associated with PRC Inter-bank Bond Market***

Market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the PRC inter-bank bond market may result in prices of certain debt securities traded on such market fluctuating significantly. The Sub-Fund is therefore subject to liquidity and volatility risks. The bid and offer spreads of the prices of such securities may be large, and the Sub-Fund may therefore incur significant trading and realisation costs and may even suffer losses when selling such investments.

The Sub-Fund is also exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Sub-Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

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

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

By investing in the PRC inter-bank bond market, the Sub-Fund may be at risk of being subject to PRC taxes. There is a possibility that the current tax laws, rules, regulations and practice in the PRC and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

***Risks associated with Bond Connect***

The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to invest in onshore PRC bonds or access the PRC market through the programme will be adversely affected. In such event, the Sub-Fund will have to increase its reliance on the Foreign Access Regime, and its ability to achieve its investment objective could be negatively affected.

***Sub-Fund's structure related risks***

Indemnity risk

Under the Trust Deed, the Trustee and the Manager have the right to be indemnified for any liability or expense incurred by them in performing their respective duties except as a result of breach of trust through their own fraud, negligence or breach of duty. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of the Sub-Fund and the value of the Units.

Control of the Sub-Fund's operation risk

Investors will have no right to control the daily operations, including investment and suspension decisions, of the Sub-Fund.

Early termination of the Trust and/or the Sub-Fund risk

The Sub-Fund may be terminated by the Manager or the Trustee under certain conditions and in the manner as specified in "Termination" in the section headed "General and Statutory Information" in this Explanatory Memorandum and the Trust Deed. It is possible that, in the event of such termination, the Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will not be able to receive an amount equal to their capital originally invested.

Suspension risk

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

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

Cross class liability Risk

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

class to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of one class of the Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of the Sub-Fund.

Cross Sub-Fund liability risk

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

***Regulatory risks***

Withdrawal of SFC authorisation risk

The Trust and the Sub-Fund have been authorised as a collective investment scheme by the SFC under Section 104 of the SFO. SFC authorisation is not a recommendation or endorsement of the Trust or the Sub-Fund nor does it guarantee the commercial merits of the Sub-Fund or its performance. It does not mean the Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. The SFC reserves the right to withdraw the authorisation of the Trust or the Sub-Fund or impose such conditions as it considers appropriate. If the Manager does not wish the Trust or the Sub-Fund to continue to be authorised by the SFC, the Manager will give Unitholders at least three months' notice of the intention to seek SFC's withdrawal of such authorisation. In addition, any authorisation granted by the SFC may be subject to certain waivers which may be withdrawn or varied by the SFC. If as a result of such withdrawal or variation of waivers it becomes illegal, impractical or inadvisable to continue the Trust or the Sub-Fund, the Trust or the Sub-Fund (as applicable) will be terminated.

Legal and regulatory risk

The Sub-Fund must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in the investment policy and objectives followed by the Sub-Fund. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the performance of the Sub-Fund. It is impossible to predict whether such an impact caused by any change of law will be positive or negative for the Sub-Fund. In the worst case scenario, a Unitholder may lose a material part of its investments in the Sub-Fund.

Taxation risk

Investing in the Sub-Fund may have tax implications for a Unitholder depending on the particular circumstances of each Unitholder. Prospective investors are strongly urged to consult their own tax advisors and counsel with respect to the possible tax consequences to them of an investment in the Units. Such tax consequences may differ in respect of different investors.

Foreign Account Tax Compliance Act ("FATCA") risks

As discussed in detail under the "Taxation" section, FATCA imposes new rules with respect to certain payments to the Sub-Fund. The Manager and/or Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the terms of the HK IGA to avoid any withholding tax. Nevertheless, in the event that the Sub-Fund is not able to comply with the requirements imposed by FATCA or the terms of the HK IGA and the Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Sub-Fund may be adversely affected and the Trust and the Sub-Fund may suffer significant loss as a result.

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

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

Valuation and accounting risk

The Manager intends to adopt IFRS in drawing up the annual accounts of the Sub-Fund. However, investors should note that the calculation of the Net Asset Value in the manner described under the section headed "Determination of Net Asset Value" will not necessarily be in compliance with generally accepted accounting principles, that is, IFRS. Under IFRS, (i) investments should be valued at fair value (bid and offer pricings are considered to be representative of fair value for listed investments) rather than last traded price or last available closing price and (ii) establishment costs should be expensed as incurred rather than amortised over the period of time. Accordingly, investors should note that the Net Asset Value as described in this Explanatory Memorandum will not necessarily be the same as the net asset value to be reported in the annual accounts as the Manager will make necessary adjustments in the annual accounts to comply with IFRS, though any difference is not expected to be material. Any such adjustments will be disclosed in the annual accounts, including a reconciliation.

## MANAGEMENT OF THE TRUST

### *The Manager*

*C3(a)*

Da Cheng International Asset Management Company Limited (the "**Manager**") is a corporation incorporated in Hong Kong which is licensed by the SFC for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO with CE number ATE045. The Manager is a wholly owned subsidiary of Dacheng Fund Management Company Limited of Shenzhen in the PRC.

Under the Trust Deed, the Manager is responsible for managing the investments and affairs of the Sub-Fund, with full power to delegate the whole or any part of its functions to any person, firm or company.

The directors of the Manager are TAN Xiaogang, XIAO Jian, ZHAO Bing and XU Zijie. Their biographical details are as follows:

TAN Xiaogang

Mr TAN Xiaogang is currently the CEO of Dacheng Fund Management Company Limited. He obtained a Master's degree of Public Administration from the Kennedy School of Government at Harvard University and was awarded the "Mason Fellow" title. He holds a Master's degree of Business Administration from Harbin Institute of Technology. He was awarded the "Lianzhou Memorial Scholarship" which was jointly launched by the China and Singapore governments in 2011. From 1992 to 1997, Mr Tan served as a Staff Member and a Senior Staff Member in the Finance Department of the World Bank. From 1997 to 2001, he worked as a Technical Assistant of the Chinese Executive Director at World Bank Headquarters (Washington, DC). From 2001 to 2003, he was a Deputy Secretary of the Finance Office. In 2003, he was a Deputy Director of the International Division of the Finance Department where he was responsible for the education and poverty alleviation programme. From 2005 to 2009, Mr Tan served as a Secretary of the Foreign Investment of the National Council for Social Security Fund. He worked as the Division Chief (from 2009 to 2010) and Deputy Director (from 2010 to 2016) of the Overseas Investment Department of the National Council for Social Security Fund.

XIAO Jian

Mr Xiao is the Deputy General Manager. He obtained a Master's Degree in Public Administration from Harvard University. He previously served as the Deputy Director of Shenzhen Nanshan District Committee (Government) Office, the Deputy General Manager of Shenzhen Guangju Energy Co. Ltd and the Executive Director and General Manager of Shenzhen Guangju Investment Holding (Group) Co. Ltd. He was also the Deputy Director General and Director General of the State-owned Assets Supervision and Administration Commission of the Shenzhen Municipal People's Government. He joined Da Cheng Fund Management Company Limited in November 2014 and has become the Deputy General Manager since January 2015.

ZHAO Bing

Ms Zhao is the Chairperson of the Supervisory Committee of the Manager. She received an MBA from Tsinghua University. She previously worked in the Membership Management Department, Professional Liaison Department and Fund Corporate Members Department of the Securities Association of China. She was a committee member of the Analysts Committee and Fund Sales Professional Committee of the Securities Association of China. She also took part in the preparatory process of the Asset Management Association of China as a member of the Preparatory Committee and later served as the Head of the Investor Education and Public Relations Department and

Wealth Management and Service Institutions Department of the Asset Management Association of China. She joined Da Cheng Fund Management Company Limited in July 2017 and has served as the Chairperson of the Supervisory Committee since August 2017.

XU Zijie

Mr Xu holds a bachelor's degree in Computer Software from Sun Yat-sen University and a master's degree in Business Administration from Nankai University. From July 2002 to December 2009, he was a staff member and then the deputy director at the Administration of Industry and Commerce Office of Shenzhen Municipality. From December 2009 to May 2011, he served as the deputy director and a Class V enforcement officer at the "Two Transformations" Promotion Office of the Shenzhen Administration for Market Regulation. From May 2011 to August 2015, he was the deputy director of the Statistics and Budget Division and a principal staff member in the Comprehensive Planning Division of the State-Owned Assets Supervision and Administration Commission of Shenzhen Municipal People's Government. He joined Dacheng Fund Management Co., Ltd. in August 2015, where he currently serves as the Office Director.

***The Investment Advisor***

Southlake Fund Management (Hong Kong) Limited ("**Southlake**" or "**Investment Advisor**") has been appointed as the investment advisor in respect of the Sub-Fund. The Investment Advisor will provide non-binding advice to the Manager on the Sub-Fund's investments and asset allocation. As a non-discretionary investment advisor, the Investment Advisor proposes or suggests investment ideas for the Manager to consider, but the ultimate decision (whether to accept, reject or otherwise) lies with the Manager. The day-to-day investment management activities of the Sub-Fund have not been delegated to the Investment Advisor and the Manager has sole overall responsibility for ensuring that the investment objectives, strategies, guidelines, and restrictions of the Sub-Fund are observed and complied with in all aspects.

Southlake, a company incorporated in Hong Kong and having its principal place of business at Room 1004, 10/F, New World Tower I, 16-18 Queen's Road Central, Central, Hong Kong, licensed with the SFC to conduct Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activities under CE Number (BIT424).

***The Trustee and Registrar*** *C3(b)*

The Trustee of the Trust is BOCI-Prudential Trustee Limited, which is a joint venture of BOC Group Trustee Company Limited (owned by BOC International Holdings Limited and Bank of China (Hong Kong) Limited) and Prudential Corporation Holdings Limited. The Trustee licensed by SFC for Type 13 (Providing Depositary Services for the Relevant CISs) regulated activity under the SFO with CE number AFQ652. *C3(g)*

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Sub-Fund. The Trustee may, however, appoint any person or persons (including a Connected Person) to be custodian or to otherwise act as its nominee or agent to hold the assets of the Sub-Fund. The Trustee is required to exercise reasonable skill, care and diligence in the selection, appointment and monitoring of such persons and, during the term of their appointment, must satisfy itself as to the ongoing suitability and competence of such persons to provide custodial services to the Sub-Fund. The Trustee will remain responsible for the acts or omissions of such persons acting as custodian, nominee and agent of the Trustee in the same manner as if such acts or omissions were those of the Trustee. *C26*

Notwithstanding the above, the Trustee shall not be liable for (i) any act or omission of Euro-clear Clearing System Limited or Clearstream Banking, S.A. or any other recognised depositary or clearing system which may from time to time be approved by the Trustee and the Manager; (ii) the

custody or control of any investments, assets or other property which is under the custody or held by or on behalf of a lender to whom such investments, assets or property have been charged or pledged for the purposes of securing any borrowing of the Sub-Fund; or (iii) such person acting as custodian, nominee or agent of the Trustee who is not a Connected Person of the Trustee appointed in respect of markets considered by the Trustee to be emerging markets (as notified in writing to the Manager from time to time) other than the PRC.

The Trustee also acts as the Registrar of the Sub-Fund, in which capacity it will be responsible, inter alia, for maintaining the register of Unitholders.

The Trustee is also responsible for the general administration of the Sub-Fund, which includes functions such as:

(a) processing subscriptions and redemptions of Units;

(b) determining the Net Asset Value and the Net Asset Value per Unit;

(c) preparing and maintaining the Sub-Fund's financial and accounting records and statements; and

(d) assisting in preparing the financial statements of the Sub-Fund.

***Indemnities of the Trustee and Manager***

Pursuant and subject to the provisions of the Trust Deed, the Trustee and the Manager (and their respective officers, employees, agents and delegates) are entitled to be indemnified, out of the assets of the Sub-Fund, in respect of all liabilities and expenses incurred in relation to the Sub-Fund and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to the Sub-Fund, except to the extent that such liability, expense, action, proceeding, cost, claim or demand arises out of fraud, negligence or wilful default of the Trustee or the Manager arising directly or indirectly from the proper performance of their duties in respect of the Sub-Fund. Nothing in any of the provisions of the Trust Deed shall provide that either the Trustee or the Manager can be exempted from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense.

***The Custodian***

The Custodian of the Sub-Fund is Bank of China (Hong Kong) Limited. *C3(b)*

Pursuant to a custodian agreement, the Custodian will act as the custodian of the Sub-Fund's assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custodian agreement. *C26*

***The Auditor*** *C3(f)*

The Manager has appointed KPMG to act as the Auditor of the Trust and the Sub-Fund. The Auditor is independent of the Manager and the Trustee.

***Conflicts of interest***

The Manager and the Trustee (and their respective Connected Persons) may from time to time act as trustee, administrator, registrar, transfer agent, manager, custodian, investment manager or investment advisor, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Sub-Fund. It is, therefore, possible that any of them may, in the course of business,

have potential conflicts of interest with the Sub-Fund. Each will, at all times, have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly.

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated risk management and compliance staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including the Sub-Fund, are treated fairly, after considering whether or not the acquisition or disposal of any investment is economical to a particular investment scheme or account and the objectives, restrictions and strategies of such investment scheme or account.

It is expected that transactions for the Sub-Fund may be carried out with or through brokers or dealers which are Connected Persons of the Manager. The Manager will ensure that all transactions carried out by or on behalf of the Sub-Fund will be in compliance with all applicable laws and regulations, and that it complies with the following obligations in respect of any transactions conducted with or through such Connected Persons:

(a) such transactions should be on arm's length terms;

(b) the Manager must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;

(c) transaction execution must be consistent with applicable best execution standards;

(d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;

(e) the Manager must monitor such transactions to ensure compliance with its obligations; and

(f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the Sub-Fund's annual report.

***Cash rebates and soft commissions*** *C15*

The Manager does not currently receive any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of the Sub-Fund. However, the Manager and/or any company associated with it reserve the right to effect transactions by or through the agency of another person (the "**Agent**") with whom the Manager and/or any company associated with it has such an arrangement.

The Manager and/or any company associated with it further reserves the right to effect transactions by or through the agency of another person with whom the Manager and/or any company associated with it has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any company associated with it goods, services or other benefits, provided that:

(a) the goods or services or other benefits (including research and advisory services; economic and political analysis; portfolio analysis including valuation and performance measurement; market analysis, data and quotation services; computer hardware and software incidental

to the above goods and services; clearing and custodian services and investment-related publications) must be of a nature such that their provision can reasonably be expected to benefit the Sub-Fund and the Unitholders as a whole and may contribute to an improvement in the performance of the Sub-Fund or of the Manager and/or any company associated with it in providing services to the Sub-Fund and for which no direct payment is made but instead the Manager and/or any company associated with it undertakes to place business with that party;

(b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates;

(c) the Manager's cash rebate and soft commission practices including a description of the goods and services received by the Manager will be disclosed in the annual report of the Sub-Fund;

(d) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer; and

(e) 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.

## STATUTORY AND GENERAL INFORMATION

### *Reports and accounts*

C17

The Trust's financial year end is on 31 December in each year. An annual report with audited accounts in the Base Currency will be prepared for each financial year. The first accounts for the Sub-Fund cover the period to 31 December 2026. Unaudited half-yearly reports will also be prepared. Such reports will provide details of the assets of the Sub-Fund and the Manager's statement on transactions during the period under review (including a list of any investments held by the Sub-Fund).

Annual and half-yearly reports and financial statements will be available in English. C18A

Once financial reports are issued, Unitholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Unitholders as soon as practicable and in any event within four months after the end of the financial year in the case of annual reports and audited financial statements, and within two months after 30 June in each year in the case of unaudited half-yearly reports. Once issued the annual and half-yearly reports will be available in softcopy from the website http://www.dcfund.com.hk (this website has not been reviewed by the SFC) and in hardcopy for inspection at the Manager's office free of charge during normal working hours. Hardcopies of the reports are also provided to Unitholders free of charge upon request. C18

### *Distribution policy*

The Manager has discretion as to whether or not the Sub-Fund will make any distribution of dividends, the frequency of distribution and amount of dividends. It is currently intended that distributions will be made on a monthly basis. However, there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. C13

Dividends in respect of different classes will be made in the class currency of the relevant classes.

The Manager may, in its discretion, pay distributions out of capital, or out of gross income while charging/ paying all or part of the Sub-Fund's fees and expenses to/out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends and therefore, dividends may be paid effectively out of capital. Please also refer to risk factor headed "Dividends risk" above for further details.

All distributions declared on the Sub-Fund will be automatically reinvested unless otherwise elected by the Unitholders, in which case the relevant proceeds will be paid to the Unitholders accordingly within one month of declaration.

### *Trust Deed*

The Trust was established under Hong Kong law by the Trust Deed made between the Manager and the Trustee. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed. The Trust Deed contains provisions for the indemnification of the Trustee and the Manager out of the assets of the Trust and their relief from liability in certain circumstances (summarised above in "Indemnities of the Trustee and Manager"). Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

### *Modification of the Trust Deed*

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

costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Trust or the Sub-Fund; or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law); or (iii) is made to correct a manifest error. In all other cases involving any material changes to the Trust Deed, any modifications, alterations and additions require the sanction of an extraordinary resolution of the Unitholders affected.

***Voting rights***

Unitholders' meetings may be convened by the Manager, by the Trustee or by Unitholders representing one-tenth or more of the current Units in issue at any time. These meetings may be used to modify the terms of the Trust Deed, including increasing the maximum fees payable to the service providers, removing the Trustee or terminating the Trust. Such amendments to the Trust Deed would require an extraordinary resolution being passed, which must be considered by Unitholders of at least 25% of the Units in issue and passed by a 75% majority of the votes cast. Other matters that require an ordinary resolution being passed would be considered by Unitholders of at least 10% of the Units in issue and passed by a simple majority of 50% of the votes cast. Unitholders will be given not less than 21 days' notice of such meeting.

***Transfer of Units***

A Unitholder shall, subject to the prior consent of the Manager, be entitled to transfer all or any of the Units registered in his name by an instrument in writing in such form as the Trustee may from time to time approve, provided that, unless the Manager otherwise agrees generally or in any particular case, no transfer of part of a holding of Units of any class shall be registered if as a result either the transferor or the transferee would hold less than the minimum holding required of such class.

Every instrument of transfer must be signed by (or, in the case of a transfer by a body corporate, signed on behalf of or sealed by) the transferor and the transferee and must be duly stamped with any applicable stamp duty before being passed to the Registrar. Subject to the provisions of the Trust Deed the transferor shall be deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect such Units. The Registrar may retain all instruments of transfer that have been registered.

***Termination*** *C24*

The Trust and the Sub-Fund may be terminated by the Trustee if: (i) the Manager goes into liquidation or a receiver is appointed and not discharged within 60 days or (ii) in the opinion of the Trustee, the Manager is incapable of performing its duties satisfactorily or (iii) the Manager has failed to perform its duties satisfactorily or has, in the opinion of the Trustee, done something calculated to bring the Trust into disrepute or that is harmful to the interests of Unitholders or (iv) a law is passed that renders it illegal, or in the opinion of the Trustee, impracticable or inadvisable to continue the Trust or (v) the Trustee is unable to find an acceptable person to replace the Manager within 30 days after the removal of the Manager, or the person nominated shall fail to be approved by Extraordinary Resolution or (vi) 30 days after the Trustee notifies the Manager of its intention to retire, no new person willing to act as trustee has been identified.

The Manager may terminate the Trust and the Sub-Fund if: (i) the aggregate net asset value of all the units of each sub-fund of the Trust (including the Sub-Fund) is less than RMB 50 million; or (ii) any law is passed or amended or regulatory directive or order is imposed which renders it illegal or in the opinion of the Manager, impracticable or inadvisable to continue the Trust; or (iii) if any law or regulation shall be passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; or (iv) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as

the new trustee after deciding to remove the Trustee in accordance with the Trust Deed; or (v) if the Manager is unable to implement its investment strategy.

Further, the Unitholders may at any time authorise termination of the Trust by extraordinary resolution.

Notice of the termination of the Trust or the Sub-Fund will be given to the Unitholders. The notice will contain the reasons for the termination, the consequences to Unitholders of terminating the Trust or the Sub-Fund and the alternatives available to them, and any other information required by the Code. Any unclaimed proceeds or other monies held by the Trustee in the event of a termination may at the expiration of twelve months from the date upon which the same became payable be paid into court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment. *C25*

***Retirement of the Trustee***

Subject to the prior written approval of the SFC, the Trustee may retire from office by giving not less than 90 days' written notice (or such period of notice as the SFC may approve) to the Unitholders provided that adequate arrangements have been made for another trustee approved by the SFC to assume responsibility for the administration of the Trust and for the Trustee's interest in the Trust Fund to be transferred to that trustee. The Manager shall as soon as practicable thereafter give notice to the Unitholders of such change specifying the name and the address of the office of the new Trustee.

If any of the following shall occur, namely:-

(a) the Trustee shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; or

(b) the SFC withdraws its approval of the Trustee as trustee of the Trust,

the Manager may by notice in writing to the Trustee remove the Trustee from office. The removal will be effective on and from the date on which the appointment of a suitably qualified corporation as new trustee is to take effect by supplemental deed, subject to the approval of the SFC. Subject to the prior written approval of the SFC, the Manager may also, by giving not less than 90 days' prior notice (or such period of notice as the SFC may approve) in writing to the Trustee, remove the Trustee from the trusteeship of the Trust and appoint any other company qualified to act as trustee under the proper law of the Trust in its place by deed entered into by the Manager and the new trustee. The removal of the Trustee and the appointment of its successor shall take effect simultaneously. The retiring Trustee shall execute such deeds and documents as shall be necessary to effect the transfer of the Trust Fund to the new trustee but without prejudice to the retiring Trustee's rights of indemnity (if any) under the proper law of the Trust.

***Removal of the Manager***

If any of the following events shall occur, namely:-

(a) the Manager shall go into liquidation (except a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Trustee) or a receiver shall be appointed over any of its assets and shall not be discharged within 60 days; or

(b) the Trustee shall form the opinion for good and sufficient reason and shall so state in writing to the Manager that a change of Manager is desirable in the interests of the Unitholders; or

(c) the Unitholders of not less than 50% in value of the Units for the time being outstanding shall deliver to the Trustee in writing a request that the Manager should retire; or

(d) the SFC withdraws its approval of the Manager as manager of the Trust.

the Trustee may, in the case of (a), by notice in writing and, in the case of (b) and (c), by not less than 3 months' notice in writing to the Manager remove the Manager from office and upon service of such notice or expiry of the notice period, as the case may be, the Manager shall cease to be the Manager.

If the approval of the Manager to act as the investment manager of the Trust is withdrawn by the SFC, the Manager's appointment under the Trust Deed shall be terminated as at the date on which the SFC's withdrawal of authorisation becomes effective. In the event that the Manager is removed by the Trustee, the Trustee shall appoint a new manager with the approval of the SFC.

***Inspection of Documents*** *C20*

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

(a) this Explanatory Memorandum;

(b) the Trust Deed; and

(c) the most recent annual report and accounts of the Sub-Fund (if any) and the most recent interim report of the Sub-Fund (if any).

***Anti-money laundering regulations***

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 Sub-Fund is subject, the Manager or the Trustee may require a detailed verification of an investor's identity and the source of payment of any applications for Units. Depending on the circumstances of each application, a detailed verification might not be required where:

(a) the investor makes the payment from an account held in the investor's name at a recognised financial institution; or

(b) the application is made through a recognised intermediary.

These exceptions apply only if the financial institution or intermediary is within a country recognised as having sufficient anti-money laundering regulations.

Each of the Trustee and the Manager reserves the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Trustee and/or the Manager may refuse to accept the application and the subscription monies relating thereof.

The Trustee and the Manager also reserve the right to refuse to make any redemption payment to a Unitholder if the Trustee or the Manager suspects or are advised that the payment of redemption proceeds to such Unitholder might result in a breach of applicable anti-money laundering or other laws or regulations by any person in any relevant jurisdiction, or if such refusal is considered necessary or appropriate to ensure the compliance by the Sub-Fund or the Trustee or the Manager with any such laws or regulations in any applicable jurisdiction.

### *Liquidity risk management*

The Manager has put in place measures to effectively manage the liquidity risk of the Sub-Fund. The Manager's risk management function monitors the implementation of liquidity risk management policies on a day-to-day basis. The risk management function regularly communicates with the portfolio managers on the Sub-Fund's liquidity risk issues. The Manager also has in place liquidity risk management tools (such as those described under the "Are there any restrictions on redemption?" section) which allow the Manager to process redemptions in an orderly manner and to ensure that all investors are treated fairly. *C2C(b)* *C2C(c)*

On an on-going basis, the Manager's risk management function will assess the Sub-Fund's liquidity position against internal liquidity indicators. The liquidity indicators are set based on the minimum or maximum proportion of the Sub-Fund's assets that can be liquidated under different period of trading days. The Manager assesses the liquidity profile of the Sub-Fund's liabilities and assets on a regular basis and assesses the Sub-Fund's investor profile and investors' historical and expected redemption patterns. Where the Sub-Fund is unable to meet the indicators, the risk management function will consider whether additional analysis is needed to be performed and whether further action should be taken to manage the liquidity risk of the Sub-Fund. Policies have been put in place and documentation will be maintained on the assessments. The Manager will also perform liquidity stress testing on the Sub-Fund on an ongoing basis. The liquidity risk management policies and procedures together with appropriate documentation of the ongoing liquidity risk assessments will be reviewed periodically and as needed.

### *Information available on the Internet* *C22A*

The Manager will also publish important news and information with respect to the Sub-Fund, both in the English and in the Chinese languages, on the Manager's website (http://www.dcfund.com.hk) (this website has not been reviewed by the SFC) including: *C8*

(a) this Explanatory Memorandum and the product key facts statement of the Sub-Fund (as revised from time to time);

(b) the latest annual and semi-annual financial reports;

(c) any notices for material alterations or additions to the Explanatory Memorandum or the Sub-Fund's constitutive documents;

(d) any public announcements made by the Sub-Fund, including any notices of the suspension of the calculation of the Net Asset Value, any changes in fees and the suspension of subscription and redemptions;

(e) the identity of authorised distributors of the Sub-Fund; and

(f) the latest available Net Asset Value of the Sub-Fund attributable to each class of Units.

### *Notices*

All notices and communications to the Manager and Trustee should be made in writing and sent to the following addresses:

***Manager***
Da Cheng International Asset Management Company Limited
Suites 3513-3519
Jardine House
1 Connaught Place
Central
Hong Kong

***Trustee***
BOCI-Prudential Trustee Limited
Suites 1501-1507 & 1513-1516, 15/F,
1111 King's Road,
Taikoo Shing, Hong Kong

***References to website***

The offer of the Units is made solely on the basis of information contained in this Explanatory Memorandum and the product key facts statement of the Sub-Fund. All references in this Explanatory Memorandum and the product key facts statement of the Sub-Fund to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this Explanatory Memorandum and the product key facts statement of the Sub-Fund. None of the Manager or the Trustee accepts any responsibility for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Manager or the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager, its website http://www.dcfund.com.hk (this website has not been reviewed by the SFC). You should exercise an appropriate degree of caution when assessing the value of such information.

The Manager's website has not been reviewed by the SFC.

# TAXATION

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

## *Hong Kong Taxation*

The Trust and the Sub-Fund

*Profits Tax*: As the Trust and the Sub-Fund have been authorised as a collective investment scheme by the SFC under Section 104 of the SFO, profits of the Trust and the Sub-Fund are exempt from Hong Kong profits tax.

*Stamp Duty*: Under a remission order issued by the Secretary for the Treasury on 20 October 1999, no Hong Kong stamp duty is payable by the Trust on an issue or redemption of Units.

Hong Kong stamp duty is ordinarily payable on the transfer of Hong Kong stock. “Hong Kong stock” is defined as “stock” the transfer of which is required to be registered in Hong Kong. The sale and purchase of Hong Kong stocks will be subject to stamp duty in Hong Kong at the current rate of 0.13% of the consideration or market value if higher of the Hong Kong stocks being sold and purchased payable by each of the seller and buyer.

The Unitholders

*Profits Tax*: Unitholders (other than Unitholders carrying on a trade, profession or business of investing in securities in Hong Kong) should not be subject to any Hong Kong profits tax on distributions by the Trust and the Sub-Fund in accordance with the practice of the Inland Revenue Department of Hong Kong (as at the date of this Explanatory Memorandum) or on any gains or profits made on the sale, redemption or other disposal of the Units. Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and the gains or profits, not being regarded as capital in nature, arise in or are derived from such trade, profession or business and sourced in Hong Kong. Unitholders should take advice from their own professional advisers as to their particular tax position.

*Stamp Duty:* Investors pay no Hong Kong ad valorem stamp duty when the Sub-Fund issues or redeems Units. Other types of sales or purchases or transfers of the Units by the Unitholders should be liable to Hong Kong stamp duty of 0.13% (borne by each of the buyer and seller) on the higher of the consideration amount or market value.

***PRC Taxation***

*Corporate Income Tax ("**CIT**"):*

If the Trust or the Sub-Fund is considered as a tax resident enterprise of the PRC, it will be subject to PRC CIT at 25% on its worldwide taxable income. If the Trust or the Sub-Fund is considered as a non-PRC tax resident enterprise with an establishment or place of business ("**PE**") in the PRC, the profits attributable to that PE would be subject to CIT at 25%.

If the Trust or a Sub-Fund are non-tax resident enterprises without a PE in the PRC, it will be subject to CIT on a withholding basis ("**WIT**"), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income, unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties.

The Manager intends to manage and operate the Trust or the Sub-Fund in such a manner that the Trust or the Sub-Fund should not be treated as a tax resident enterprise of the PRC or a non-PRC tax resident enterprise with a PE in the PRC for CIT purposes although no guarantee in this regard can be given. As such, it is expected that the Trust or the Sub-Fund, as a non-PRC tax resident enterprise without having a PE in the PRC, would only be subject to WIT to the extent the Trust or the Sub-Fund directly derives passive income with a PRC source (e.g. dividend, interest or capital gains), unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

*(i) Dividend*

Unless a specific exemption or reduction is available under current CIT law and regulations or relevant tax treaties, non-PRC tax resident enterprises without a PE in the PRC are subject to WIT, generally at a rate of 10% on dividend income arising from investments in the PRC securities. The entity distributing such dividends is required to withhold such tax on behalf of the recipients. The Sub-Fund is subject to WIT at 10% on dividends received from A-Shares traded via QFI and Stock Connect, B-Shares and H-Shares.

*(ii) Capital gains*

<u>Capital gains derived from the trading of A-Shares</u>

On 14 November 2014, the MOF, the STA and the CSRC jointly promulgated the Notice on the temporary exemption of CIT on gains derived from the transfer of PRC equity investment assets such as PRC domestic stocks by QFIIs and RQFIIs (Caishui [2014] No. 79) ("**Notice No. 79**"). According to the Notice No. 79, amongst other things: (i) CIT shall be exempt on a temporary basis on the gains realised by QFIIs and RQFIIs (without a place of effective management, any establishment or place of business in the PRC or the income derived by the QFIIs and RQFIIs is not effectively connected with their establishment or place of business in the PRC) from the transfer of PRC equity investment assets (including A-Shares) with effect from 17 November 2014; and (ii) CIT shall be imposed on such gains realised by QFIIs and RQFIIs from the transfer of PRC equity investment assets (including PRC domestic stocks) before 17 November 2014 in accordance with the CIT laws.

Pursuant to the Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect (Circular Caishui [2014] No.81) ("**Notice No. 81**") and Shenzhen-Hong Kong Stock Connect (Circular Caishui [2016] No. 127) ("**Notice No. 127**") promulgated by the MOF, the STA and the CSRC, CIT will be temporarily exempted on gains realised by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-Shares through the Stock Connect.

<u>Capital gains derived from the trading of B-Shares and H-Shares</u>

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of B-Shares and H-Shares. Hence, the tax treatment for investment in B-Shares

and H-Shares is governed by the general taxing provisions of the CIT law. Under such general taxing provision, the Sub-Fund could be technically subject to 10% WIT on the PRC-sourced capital gains, unless exempt or reduced under relevant double tax treaties.

However, for B-Shares and H-Shares invested by the Sub-Fund directly, there may be practical difficulty for the PRC tax authorities to impose and collect WIT on such capital gains. The 10% WIT has not been strictly enforced by local tax bureau on capital gains derived by non-PRC tax resident enterprises from the trading of these securities.

Capital gains derived from the trading of other overseas listed shares

According to the STA Public Notice [2015] No. 7 ("**PN7**"), where a non-PRC tax resident seller indirectly transfers the equity interest in a PRC tax resident enterprise and other properties in China (the "**Taxable Properties in China**") through the implementation of a scheme without a reasonable commercial purpose resulting in the avoidance of CIT liability, the PRC tax authority could re-characterise the transaction as a direct transfer of the equity interest and the taxable properties in China and impose CIT. Under PN7, the foreign transferor should perform self-assessment on whether there are reasonable commercial purposes for the offshore indirect transfer against the seven general criteria as stated in PN7. If the transaction is regarded as lacking reasonable commercial purpose, the PRC tax authorities would invoke General Anti Avoidance Rules ("**GAAR**") challenge and impose a 10% PRC WIT on the respective transferor for the potential capital gains.

As the transfer of overseas listed shares (e.g. P Chips and S Chips) would result in an indirect transfer of the underlying PRC companies, it may be caught under indirect transfer of shares of PRC entities under PN7.

However, from a technical perspective, GAAR cases should be assessed based on both "purpose test" and "substance test". A listing vehicle should be regarded as having reasonable commercial purpose (an obvious commercial purpose is raising capital) for its set up and not for the main purpose of tax avoidance. As such, a listing vehicle should not be disregarded under the GAAR.

Furthermore, PN7 provides safe harbour scenarios where an offshore indirect transfer of Taxable Properties in China would be excluded from being subject to PRC tax. Pursuant to PN7 Article 5, where a non-PRC tax resident seller buys and sells the shares of the same listed overseas company through public stock exchanges, the transaction would be deemed as having reasonable commercial purposes and not be subject to PRC tax.

As such, the capital gains derived by the Sub-Fund from the trading of other overseas listed shares should not be subject to PRC WIT.

*Value-added Tax ("**VAT**") and other surtaxes:*

Pursuant to Caishui [2016] No.36 ("**Circular 36**"), with effect from 1 May 2016, gains realised by taxpayers from trading of marketable securities would generally be subject to PRC VAT at 6% unless there is a specific VAT exemption under tax regulations.

Under Circular 36, Caishui [2016] No.70 and Caishui [2016] No.127, gains realised by (i) QFIIs and RQFIIs from trading of PRC securities and (ii) Hong Kong and overseas investors (including the Sub-Fund) from the trading of A-Shares through the Stock Connect are exempted from PRC VAT.

The current VAT regulations do not provide VAT exemption on capital gains derived from trading of B-Shares. Having said that, the PRC tax authorities have not actively collected VAT from non-tax resident enterprises of the PRC on gains realised from B-Shares in practice. Where capital gains are derived from trading of H-Shares and other overseas listed shares, VAT in general is not imposed as the purchase and disposal are often concluded and completed outside the PRC.

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

If VAT is applicable, there are also other local surtaxes (including Urban Maintenance and Construction Tax ("**UMCT**"), Education Surcharge ("**ES**") and Local Education Surcharge ("**LES**")) that could amount to as high as 12% of the VAT payable. Having said that, pursuant to the newly issued UCMT law, effective from 1 September 2021, no UCMT would be levied on the VAT paid for the sale of services by overseas parties to Mainland Chinese parties. Furthermore, Public Notice [2021] No.28 stipulates that the taxation basis of ES and LES are the same as that of the UCMT. In other words, if UCMT is exempted, the relevant ES and LES would also be exempted. However, the implementation of the exemption may vary depending on the local practice.

*Stamp Duty:*

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

*Tax provisioning approach:*

Having consulted professional and independent tax advice and pursuant to Notice No. 79, Notice No. 81, Notice No. 127, Circular 36 and other PRC tax regulations, the Manager will not make a separate PRC WIT and VAT provision on any gross realised or unrealised gains derived from trading of A-Shares on or after 17 November 2014 from QFIs, and any gross realised or unrealised gains derived on the trading of A-Shares through the Stock Connect, on behalf of the Sub-Fund. However, the Manager will make a provision for WIT of 10% on all distribution income received from investment in PRC tax resident enterprises if the WIT not being withheld at source.

Under current PRC tax law, there are no specific rules or regulations governing the taxation of the disposal of B-Shares and H-Shares. On the basis that 10% WIT has not been strictly enforced by local tax bureau, no WIT provision for gross realised or unrealised capital gains derived from the trading B-Shares and H-Shares will be made by the Manager on behalf of the Sub-Fund. No VAT provision for gross realised or unrealised capital gains derived from the trading of B-Shares and H-Shares will be made by the Manager on behalf of the Sub-Fund.

No WIT and VAT provision for gross realised and unrealised capital gains derived from the trading of overseas listed shares will be made by the Manager on behalf of the Sub-Fund.

Investors should note that any provision made in respect of the Sub-Fund may be excessive or inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant PRC tax authorities. Upon any future resolution of the above-mentioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

*General:*

Various tax reform policies have been implemented by the PRC government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is no assurance that current tax exemptions or incentives will not be abolished in the future. It should also be noted that the actual applicable tax imposed by STA may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. There is also a possibility that the PRC tax authorities may change their view and interpretation of the provisions in the PRC CIT law. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

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

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

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

***FATCA and compliance with US withholding requirements***

The US Hiring Incentives to Restore Employment Act (the "**HIRE Act**") was signed into US law in March 2010 and includes provisions commonly referred to as the "Foreign Account Tax Compliance Act" or "**FATCA**". Broadly, the FATCA provisions are set out in sections 1471 to 1474 of the US Internal Revenue Code of 1986, as amended (the "**Revenue Code**"), which impose a new reporting regime with respect to certain payments to foreign financial institutions (each an "**FFI**"), such as the Sub-Fund, including interests and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a rate of 30%, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (the "**IRS**") to identify United States persons (within the meaning of the Revenue Code) ("**US persons**") with interests in such FFIs. To avoid such withholding on payments made to them, FFIs (including banks, brokers, custodians and investment funds) located in jurisdictions that have signed an intergovernmental agreement ("**IGA**") for implementation of FATCA will be required to enter into a FFI agreement (a "**FFI Agreement**") by registering with the IRS and obtaining a Global Intermediary Identification Number ("**GIIN**") in order to be treated as a participating FFI ("**Participating FFI**"). Participating FFIs are required to identify all investors that are US persons and report certain information concerning such US persons to the IRS. The FFI Agreement will also generally require that a Participating FFI deduct and withhold 30% from US source withholdable payments made by the Participating FFI to investors who fail to cooperate with certain information requests made by the Participating FFI. Moreover, Participating FFIs are required to deduct and withhold on such US source withholdable payments made to investors that are themselves FFIs but that have not entered into an FFI Agreement with the IRS or that are not otherwise deemed compliant with FATCA (i.e. a "**non-compliant FFI**").

FATCA withholding generally applies to (i) payments of US source income, including US source dividends and interest, made after 30 June 2014; and (ii) payments of gross proceeds of sale or other disposal of property that can produce US source income after 31 December 2016. The 30% withholding could also apply to payments otherwise attributable to US source income (also known as "foreign passthru payments") starting no earlier than 1 January 2017, though the US tax rules on "foreign passthru payments" are currently pending. Participating FFIs will generally be required to begin withholding on US source withholdable payments made after 30 June 2014 and report with respect to information relating to the 2014 calendar year in 2015.

The United States and a number of other jurisdictions have entered into IGAs. The Government of the United States and the Government of Hong Kong have entered into a Model 2 IGA on 13

November 2014 (the "**HK IGA**"). Under the HK IGA, FFIs in Hong Kong (such as the Sub-Fund) would be required to register with the IRS and obtain a GIIN to be subject to the terms of a FFI Agreement with the IRS and comply with the terms under such FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US source payments made to them.

Under the HK IGA, FFIs in Hong Kong (such as the Sub-Fund) complying with an FFI Agreement will generally not be required to withhold tax on US source withholdable payments to recalcitrant accounts (i.e. certain accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close such recalcitrant accounts (provided that information regarding the recalcitrant accounts is reported to the IRS according to the terms of the HK IGA), but may be required to withhold tax on US source payments made to non-compliant FFIs.

Even though the HK IGA has now been signed between Hong Kong and the United States, withholding may apply to US source withholdable payments covered by FATCA if the Sub-Fund cannot fully satisfy the applicable requirements and is determined to be non-FATCA compliant or if the Hong Kong government is found in breach of the terms of the HK IGA.

The Manager has registered with the IRS as a sponsoring entity for funds under its management, and has agreed to perform, on behalf of the sponsored investment entities, all due diligence, reporting and other relevant FATCA requirements. The Manager has been assigned the GIIN of 4B7FTK.00000.SP.344. For FATCA purposes, the Sub-Fund, as a sponsored investment entity, would be considered as a registered deemed compliant FFI sponsored by the Manager. In order to protect Unitholders and avoid being subject to withholding under FATCA, it is the Manager's intention that it and/or the Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the terms of the HK IGA. Hence it is possible that this may require the Sub-Fund (through its agents or service providers) as far as legally permitted, to report information on the holdings or investment returns of certain Unitholders to the IRS pursuant to the terms of the HK IGA. It is also possible that the Sub-Fund may be required to compulsorily redeem and/or apply withholdings to certain US source payments to Unitholders who fail to provide the information and documents required to identify their status, or who are non-compliant FFIs or who fall within other categories specified in the FATCA provisions and regulations. Any such compulsory redemption and/or withholding will be done in accordance with applicable laws and regulations and in accordance with the Trust Deed, and the discretion to do so will be exercised by the Manager or the Trustee acting in good faith and on reasonable grounds.

Although the Sub-Fund will attempt to satisfy any obligations imposed on them to avoid the imposition of FATCA withholding tax, no assurance can be given that the Sub-Fund will be able to fully satisfy these obligations in order to avoid such withholding. If the Sub-Fund becomes subject to a withholding tax as a result of FATCA non-compliance, the Net Asset Value of the Sub-Fund may be adversely affected and the Sub-Fund and the Unitholders may suffer material loss.

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

***The OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard***

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

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

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

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

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

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

By investing in the Sub-Fund and/or continuing to invest in the Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Sub-Fund, the Manager, the Trustee and/or the Sub-Fund's agents in order for the Sub-Fund to fulfil its obligations under the Ordinance and comply with AEOI. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such

Unitholders that are not natural persons), if reportable, may be communicated by the IRD to authorities in Reportable Jurisdictions. The failure by a Unitholder to provide any requested information may result in the Sub-Fund, the Manager, the Trustee and/or other agents of the Sub-Fund taking any action and/or pursue remedies at their disposal including, without limitation, compulsory redemption. Any such compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

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

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