



**Taiping Investment Fund**

**- Taiping Greater China New Momentum Equity Fund -  
- Taiping Investment Grade Bond Fund -**

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**EXPLANATORY MEMORANDUM**

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**February 2024**

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## IMPORTANT INFORMATION FOR INVESTORS

**Important - If you are in any doubt about the contents of this Explanatory Memorandum, you should seek independent professional financial and/or legal advice. Investment in the Fund involves risks. Please refer to the section headed “Risk Factors” for further details.**

This Explanatory Memorandum comprises information relating to Taiping Investment Fund (“**Fund**”) and its sub-funds (“**Sub-Funds**”). The Fund is an open-ended unit trust constituted as an umbrella unit trust by the Trust Deed and governed by the laws of Hong Kong.

The Fund was originally established under the laws of the Cayman Islands by a trust deed dated 17 March 2009, made between Hai Tong Asset Management (HK) Limited as manager and HSBC Trustee (Cayman) Limited as trustee and as amended from time to time. With effect from 15 December 2014, Hai Tong Asset Management (HK) Limited retired from its role as manager and has been replaced by Taiping Assets Management (HK) Company Limited (“**Manager**”) as the Manager. With effect from 30 April 2016, the Fund was removed from the jurisdiction of the Cayman Islands to the jurisdiction of Hong Kong and HSBC Trustee (Cayman) Limited retired from its role as trustee and has been replaced by HSBC Institutional Trust Services (Asia) Limited as the trustee. With effect from 1 January 2017, BOCI-Prudential Trustee Limited (“**Trustee**”) was appointed as trustee in place of HSBC Institutional Trust Services (Asia) Limited.

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

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

### **Hong Kong Authorisation and Approval**

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

## **Selling Restrictions**

**General:** No action has been taken to permit an offering of Units of the Sub-Funds or the distribution of this Explanatory Memorandum or the Product Key Facts Statement in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Explanatory Memorandum or the Product Key Facts Statement may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised. Further, Units of the Sub-Funds may not be offered or sold, directly or indirectly, to any persons for reoffering or resale, in any jurisdiction where such action is not authorised. Receipt of this Explanatory Memorandum or the Product Key Facts Statement does not constitute an offer of Units of the Sub-Funds in those jurisdictions in which it is illegal to make such an offer.

**United States:** In particular:-

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

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

This document is based on the laws and practices currently in force in Hong Kong and is subject to changes therein.

Some of the information in this Explanatory Memorandum is a summary of corresponding provisions in the Trust Deed. Investors should refer to the Trust Deed for further details.

**Please note that this Explanatory Memorandum must be read together with the relevant Appendix and/or Addendum to this Explanatory Memorandum which relate to a specific Sub-Fund of the Fund. The Appendix and/or Addendum set out the details relating to the Sub-Fund (which may include, without limitation, specific information on the Sub-Fund and additional terms, conditions and restrictions applicable to the Sub-Fund). The provisions of an Appendix and/or an Addendum supplement this Explanatory Memorandum.**

## **Enquiries**

Investors may contact the Manager for any queries or complaints in relation to the Fund and any Sub-Fund.

To contact the Manager, investors may either:

- write to Manager (address at Unit 1-2, 19th Floor, China Taiping Finance Centre, No. 18 King Wah Road, Hong Kong); or
- call the Manager's Customer Service Hotline: +852 2864 1900.

The Manager will respond to any enquiries or complaint in writing or by telephone.

### **Further Information**

Information relating to the Fund or the Sub-Funds, including the latest versions of the offering document, circulars, notices, announcements, financial reports and the latest available Net Asset Value will be available on the website <http://www.tpahk.cntaiping.com>. Information contained in the website of the Manager has not been reviewed by the SFC.

## **DIRECTORY OF PARTIES**

### **Manager**

Taiping Assets Management (HK) Company Limited  
Unit 1-2, 19th Floor  
China Taiping Finance Centre  
No. 18 King Wah Road  
Hong Kong

### **Directors of the Manager**

Ma Yong  
Chen Dongxia  
Li Hao  
Yao Peng  
Chen Rui

### **Trustee and Registrar**

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

### **Custodian**

Bank of China (Hong Kong) Limited  
7/F Bank of China Building  
2A Des Voeux Road Central  
Hong Kong

### **Auditor**

KPMG  
8th Floor, Prince's Building  
10 Chater Road, Central  
Hong Kong

### **Legal Advisers to the Manager**

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

## DEFINITIONS

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

- “Accounting Date”** 31 December in each year or such other date or dates in each year as the Manager may from time to time determine in respect of any Sub-Fund
- “Accounting Period”** a period commencing on the date of establishment of the Fund or the relevant Sub-Fund (as the case may be) or on the date next following an Accounting Date of the relevant Sub-Fund and ending on the next succeeding Accounting Date for such Sub-Fund
- “Appendix”** the appendix containing specific information in relation to a Sub-Fund or a class or classes of Units in relation thereto which is enclosed with this Explanatory Memorandum and which forms part of this Explanatory Memorandum
- “Base Currency”** in relation to a Sub-Fund, means the currency of account of the Sub-Fund as specified in the relevant Appendix
- “Business Day”** a day (other than a Saturday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, either generally or in relation to a particular Sub-Fund, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day shall not be a Business Day unless the Manager and the Trustee determine otherwise
- “Code”** the Overarching Principles Section and Section II- Code on Unit Trusts and Mutual Funds of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products or any handbook, guideline and code issued by the Commission, as may be amended from time to time
- “connected person”** in relation to a company, means:
- (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) above
<b>“Custodian”</b>	Bank of China (Hong Kong) Limited
<b>“Dealing Day”</b>	such days as are described in the Appendix for the relevant Sub-Fund
<b>“Extraordinary Resolution”</b>	a resolution proposed at one or more meetings of Unitholders convened and held in accordance with the provisions of Appendix K of the Trust Deed and passed at such meeting by a majority consisting of 75% or more of the total number of votes cast for and against such resolution or a resolution in writing signed by all the Unitholders for the time being entitled to receive notice of any meeting
<b>“Fund”</b>	Taiping Investment Fund
<b>“HK Dollar” or “HK\$”</b>	the currency of Hong Kong
<b>“Hong Kong”</b>	Hong Kong Special Administrative Region of the PRC
<b>“IFRS”</b>	the International Financial Reporting Standards
<b>“Initial Offer Period”</b>	the initial period during which the Units of a Sub-Fund are being or have been offered to investors as may be described in the relevant Appendix relating to the relevant Sub-Fund
<b>“Investment Delegate”</b>	an entity that has been delegated the investment management function of all or part of the assets of a Sub-Fund, the details of which are as specified in the relevant Appendix (if applicable)
<b>“Issue Price”</b>	the price per Unit as disclosed in the relevant Appendix relating to the relevant Sub-Fund during the Initial Offer Period
<b>“Manager”</b>	Taiping Assets Management (HK) Company Limited
<b>“Market”</b>	any securities exchange, any over-the-counter market, any futures exchange and any organised securities market which is open to the international public and on which securities are regularly traded
<b>“Minimum Holding”</b>	the minimum number or value of Units of any Sub-Fund or class of Units which must be held by any Unitholder as outlined in the relevant Appendix for the relevant Sub-Fund
<b>“Minimum Subscription”</b>	the total minimum subscription amount, if applicable, to be

<b>Level</b>	received on or prior to the close of the Initial Offer Period and as specified in the relevant Appendix
<b>“Net Asset Value”</b>	the net asset value of the Fund or a Sub-Fund or a class of Units or a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed <b>“Valuation”</b>
<b>“Ordinary Resolution”</b>	a resolution passed at one or more meetings of Unitholders convened and held in accordance with the provisions of Appendix K of the Trust Deed and passed at such meeting by a simple majority or more of the total number of votes cast for and against such resolution
<b>“PRC”</b>	the People’s Republic of China
<b>“Qualified Exchange Traded Funds”</b>	exchange traded funds that are: <ul style="list-style-type: none"> <li>(a) authorized by the SFC under 8.6 or 8.10 of the Code; or</li> <li>(b) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (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 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under 8.10 of the Code</li> </ul>
<b>“Registrar”</b>	BOCI-Prudential Trustee Limited in its capacity as registrar of the Fund
<b>“REITs”</b>	real estate investment trusts
<b>“reverse repurchase transactions”</b>	transactions whereby a Sub-Fund purchases securities from a counterparty of sale and repurchase transactions and agrees to sell such securities back at an agreed price in the future
<b>“sale and repurchase transactions”</b>	transactions whereby a Sub-Fund sells its securities to a counterparty of reverse repurchase transactions and agrees to buy such securities back at an agreed price with a financing cost in the future
<b>“securities financing transactions”</b>	collectively securities lending transactions, sale and repurchase transactions and reverse repurchase transactions
<b>“securities lending transactions”</b>	transactions whereby a Sub-Fund lends its securities to a security-borrowing counterparty for an agreed fee

<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
<b>“Sub-Fund”</b>	a separate pool of assets of the Fund allocated to a sub-fund that is invested and administered separately from other assets of the Fund
<b>“substantial financial institution”</b>	an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of Laws of Hong Kong) or a financial institution which is on an ongoing basis subject to prudential regulation and supervision, with a minimum net asset value of HK\$2 billion or its equivalent in foreign currency
<b>“Trust Deed”</b>	the trust deed establishing the Fund dated 17 March 2009 and as amended, supplemented and novated from time to time
<b>“Trustee”</b>	BOCI-Prudential Trustee Limited in its capacity as trustee of the Fund
<b>“Unit”</b>	a Unit in a Sub-Fund
<b>“Unitholder”</b>	a person registered as a holder of a Unit
<b>“Valuation Day”</b>	such days as are described in the relevant Appendix for the relevant Sub-Fund
<b>“Valuation Point”</b>	close of business in the last relevant market to close on each Valuation Day or such other Business Day or Business Days as the Manager may determine from time to time with the approval of the Trustee

## INTRODUCTION

Taiping Investment Fund is an umbrella unit trust constituted by the Trust Deed and governed by the laws of Hong Kong. The assets and liabilities of the Fund will be apportioned and attributed in the books of the Fund to the relevant Sub-Fund. The Manager may create further Sub-Funds in future. Each Sub-Fund may have different objectives, and may issue different classes of Units, which may have different fee structures as determined by the Manager.

## MANAGER AND TRUSTEE

### Manager

**The Manager of the Fund is Taiping Assets Management (HK) Company Limited.**

The Manager was incorporated in Hong Kong in October 1996. It is principally engaged in fund management and the provision of advisory investment services to corporations, institutions and individual investors.

The Manager is a wholly owned subsidiary of China Taiping Insurance Holdings Company Limited (“**Taiping Holdings**”). Taiping Holdings is a company listed on The Stock Exchange of Hong Kong (Stock Code: 966). As of 31 December 2022, Taiping Holdings is in turn owned as to 61.25% by China Taiping Insurance Group (HK) Company Limited, a company incorporated in Hong Kong, which is a wholly owned subsidiary of China Taiping Insurance Group Co. China Taiping Insurance Group Co. is a state-owned enterprise which is managed by the central government of the People’s Republic of China.

In accordance with section 116 of the SFO, the Manager is licensed to conduct types 4 and 9 regulated activities as defined in Schedule 5 of the SFO. Such regulated activities include advising in securities and asset management.

Details of the Directors of the Manager are as follows:

### Ma Yong

Mr. Ma Yong is the General Manager of Taiping Financial Holdings Company Limited and the Chairman of the Manager. He joined Taiping since 2004, and has served in Taiping Life Insurance Co., Ltd., Taiping Asset Management Co., Ltd. and China Taiping Insurance Group Ltd. for nearly two decades in various roles. He graduated from Shandong University with a Doctor Degree in Industrial Economics.

### Chen Dongxia

Ms. Chen Dongxia is the Deputy General Manager of Taiping Financial Holdings Company Limited. She is also the Director of the Manager. She is Certified Public Accountant of Australia and has more than 20 years of experience in the financial industry. Prior to joining Taiping, Ms. Chen served in China Resources Group in various roles. She obtained her Master Degree of Commerce from University of Sydney.

## **Li Hao**

Mr. Li Hao is the Assistant General Manager of Taiping Financial Holdings Company Limited. He is also the Director of the Manager. He has more than 15 years of experience in the banking industry. Prior to joining Taiping, Mr. Li served in Agricultural Development Bank of China over a decade in various roles. He obtained his Ph.D. in Economics from the Chinese Academy of Social Sciences and Master of Educational Technology from Peking University.

## **Yao Peng**

Mr. Yao Peng is the General Manager of Taiping Assets Management (HK) Company Limited. He is also the Director of the Manager. Mr. Yao has over 18 years of experience in the financial industry and more than 11 years of experience in managing public funds. Prior to joining Taiping, Mr. Yao served as Head of Asset Management at China Construction Bank (Asia). Before that he was the CIO at Shinhan BNP Paribas Asset Management (HK) Ltd. He obtained his Master Degree in Mathematics in Finance from New York University and Bachelor Degree of Science in Computer Science from University of Texas at Austin. He is a Chartered Financial Analyst.

## **Chen Rui**

Mr. Chen Rui is the General Manager of Risk Management & Compliance Department in Taiping Financial Holdings Company Limited. He is also the Director of the Manager. He has served in China Bohai Bank, Bank of America and HSBC for more than 10 years. Mr. Chen joined Taiping Asset Management Co. Ltd in 2009, and served the company over a decade. He obtained his Master Degree in Business Administration from Southern Cross University.

## **Trustee and Registrar**

The Trustee of the Fund is BOCI-Prudential Trustee Limited. The Trustee also acts as the Registrar of the Fund, and provides services in respect of the maintenance of the register of the Unitholders.

The Trustee is a registered trust company in Hong Kong. The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited (“PCHL”). BOC Group Trustee Company Limited is owned by BOC International Holdings Limited and Bank of China (Hong Kong) Limited, which are subsidiaries of Bank of China Limited. The business activities of the Trustee are principally provision of trustee services, investment accounting, administration and registrar services to various kinds of funds and institutional clients.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of and shall take into custody or under its control all the securities and other property forming part of the Fund and the Sub-Funds and hold them in trust for the Unitholders of the relevant Sub-Fund in accordance with the provisions of the Trust Deed and, to the extent permitted by law, shall register cash and registrable assets in the name of or to the order of the Trustee and such securities and the property forming part of the Fund and the Sub-Funds shall be dealt with as the Trustee may think proper for the purpose of providing for the safe-keeping thereto.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its connected persons) to hold as custodian, co-custodian, nominee or agent, all or any of the investments, assets or other property comprised in the Fund and the Sub-Funds and may empower any such custodian, nominee or agent to appoint, with no objection in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, co-custodian and sub-custodian a “**Correspondent**”). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents; and (b) be satisfied that Correspondents retained remain suitably qualified and competent to provide the relevant custodial services to the Fund and the Sub-Funds. The Trustee shall be responsible for the acts and omissions of any Correspondent which is a connected person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) in this paragraph, the Trustee shall not be liable for any acts, omissions, insolvency, liquidation or bankruptcy of any Correspondent which is not a connected person of the Trustee.

The Trustee shall not be liable for any act, omission, insolvency of (a) Euroclear Bank S.A./N.V., Clearstream Banking, S.A. or any other such central depository or clearing and settlement system in relation to any investment deposited with such central depository or clearing and settlement system or (b) any lender or a nominee appointed by the lender in whose name any assets of a Sub-Fund transferred to it are registered pursuant to a borrowing undertaken for the account of such Sub-Fund pursuant to the provisions of the Trust Deed.

Subject as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Fund or the Sub-Funds.

Subject as provided in the Trust Deed, in the absence of fraud, bad faith, wilful default, or negligence by the Trustee, the Trustee shall have recourse to the Fund and/or each Sub-Fund for the purpose of indemnity against any and all actions, costs, claims, damages, expenses or demands (other than those arising out of any liability or obligation to any person imposed on the Trustee by the laws of Hong Kong or any provision of the Trust Deed) to which it may be put as Trustee.

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

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

The Manager has sole responsibility for making investment decisions in relation to the Fund and the Sub-Funds. The Trustee shall take reasonable care to ensure that the investment and borrowing limitations set out in the Trust Deed and the conditions under which the Fund and the Sub-Funds are authorised pursuant to the SFO are complied with. Save for the aforesaid, the Trustee (including its delegate) is not otherwise responsible and has no liability for any investment decision made by the Manager. Except as provided in the Trust Deed or expressly stated in this Explanatory Memorandum and/or required by the Code, neither the Trustee and the Registrar nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Fund or the Sub-Funds, and they are not responsible for the preparation or issue of this Explanatory

Memorandum other than the description under this sub-section headed “**Trustee and Registrar**”.

### **Custodian**

The Trustee has appointed Bank of China (Hong Kong) Limited (“**BOCHK**”) as the custodian of the Fund and the Sub-Funds.

The Custodian was incorporated in Hong Kong on 16 October 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in BOC Credit Card (International) Limited.

BOC Hong Kong (Holdings) Limited was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. After a successful global initial public offering, BOC Hong Kong (Holdings) Limited began trading on the Main Board of the Stock Exchange of Hong Kong Limited on 25 July 2002 with stock code “2388” and became a Hang Seng Index constituent stock on 2 December 2002.

### **Auditor**

KPMG has been appointed to act as the auditor to the Fund and its Sub-Funds.

### **Authorised Distributors**

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

## **INVESTMENT OBJECTIVE AND STRATEGY**

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

## **INVESTMENT AND BORROWING RESTRICTIONS**

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

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Unitholders. The Manager is not required to sell investments if any of the investment restrictions are exceeded as a result of changes in the value of a Sub-Fund’s investments, reconstructions or amalgamations, payments out of the assets of the Sub-Fund or redemptions of Units but for so long as such limits are exceeded the Manager will not acquire any further investments subject to the relevant restriction and will take all reasonable steps to restore the breached position so that the limits are no longer exceeded.

## SECURITIES LENDING, SALE AND REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

Unless otherwise disclosed in the Appendix of a Sub-Fund, the Manager currently does not intend to enter into any securities financing transactions in respect of any Sub-Fund.

### RESTRICTIONS ON UNITHOLDERS

Unitholders may not be a “United States Person” or Canadian resident. A “United States Person” has the meaning ascribed to it in Regulation S of the United States Securities Act of 1933. A “United States Person” includes any person resident in the United States. An investor must inform the Manager immediately on becoming a “United States Person” or a Canadian resident, in which circumstances the investor may be required to redeem his or her Units in the Fund.

The Manager may impose any restrictions as it deems necessary to ensure that no Units of the Fund are acquired or held directly or beneficially by:

- (i) any person under the age of 18 (or such other age as the Manager may think fit); or
- (ii) any person in breach of the law or requirements of any country or governmental authority; or
- (iii) any person or persons in circumstances (whether directly or indirectly affecting such person or persons and whether taken alone or in conjunction with any other person or persons, connected or not, or any other circumstances appearing to the Manager to be relevant) that, in the opinion of the Manager, might result in the Trustee, the Manager or the Fund breaching any law or requirement of any country or governmental authority, including any liability to taxation or suffering any other pecuniary disadvantage, that the Trustee, the Manager or the Fund might not otherwise have incurred or suffered or which might result in the Manager, the Trustee or the Fund becoming subject to additional regulation or taxation in any other country (a “**non-qualified person**”).

If it comes to the notice of the Manager that any Units are held by any such non-qualified person, the Manager may notify such person, requiring the redemption or transfer of any Units held in accordance with the provisions of the Trust Deed. A person who becomes aware that holding or ownership of Units is in breach of any such restrictions is required to deliver, either to the Trustee or the Manager or its authorised agents, a written request for the redemption of such Units or to transfer the same to a person who is not a non-qualified person. In such circumstances, neither the Manager, the Trustee, nor any other person is required to compensate the investor or any other person for any loss that may arise in connection with the redemption of Units.

### OFFERING

Units of a Sub-Fund will be offered for the first time at the Issue Price during the Initial Offer Period as may be set out in the relevant Appendix relating to the relevant Sub-Fund. Units of a Sub-Fund may or may not be issued following the close of the relevant Initial Offer Period as described in the relevant Appendix. Investments can be made by the relevant Sub-Fund only after Units are issued to Unitholders after the close of the relevant Initial Offer Period.

The offering of a class of Units or a Sub-Fund may be conditional upon the Minimum



Subscription Level (if applicable) being received on or prior to the close of the Initial Offer Period.

In the event that the Minimum Subscription Level of a class of Units or a Sub-Fund is not achieved or the Manager is of the opinion that it is not in the commercial interest of investors or not feasible, as a result of adverse market conditions or otherwise, to proceed with the relevant class of Units or Sub-Fund, the Manager may in its discretion extend the Initial Offer Period for the relevant class of Units or Sub-Fund or determine that the relevant class of Units or the relevant Sub-Fund and the class or classes of Units relating to it will not be launched. In such event, the relevant class of Units or the Sub-Fund and the class or classes of Units relating to it shall be deemed not to have commenced.

Notwithstanding the aforesaid, the Manager reserves the discretion to proceed with the issue of Units of the relevant class of Units or Sub-Fund even if the Minimum Subscription Level has not been achieved.

## **PURCHASE OF UNITS**

### **Application Procedure**

Unless otherwise disclosed in the relevant Appendix relating to the relevant Sub-Fund, an investor should complete the application form and return the form to the Trustee.

Any investor that sends application forms by facsimile or by any other means or electronic means as the Manager or the Trustee may from time to time determine assumes the risk that the Trustee may not receive the forms. Investors should confirm with the Trustee safe receipt of an application form. Neither the Manager nor the Trustee and/or the respective agents are responsible to a Unitholder for any loss resulting from non-receipt or duplicate receipt or illegibility of any application form sent by facsimile or by such means. Unless otherwise agreed by the Manager and the Trustee, the original of any application form sent by facsimile should be forwarded to the Trustee.

Subject to the conditions outlined in the section headed “**Subscription of Units**” in the relevant Appendix, applications will generally be accepted only if cleared funds have been received on or prior to the relevant application submission cut-off times in relation to which Units are to be issued, as set out in the section headed “**Subscription Details**” in the Appendix, or at the discretion of the Manager. Investors should confirm the relevant application submission cut-off times with their distributors.

The Manager reserves the right to defer processing any application until receipt of cleared monies and to reduce the subscription amount by any financial charges, for example, bank service charges and transfer fees.

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. A Unitholder must examine contract notes and statements issued in respect of the Fund. A register of Unitholders shall be kept by the Trustee. If a Unitholder does not notify the Trustee of any errors within 30 days of issue of the statement or contract note, the Unitholder will be deemed to have waived any right to raise any objections in relation to them.

The Manager, at its discretion, may charge a subscription fee on the total value of the relevant class of Units subscribed. Any subscription fee will be described in the relevant Appendix in respect of the relevant Sub-Fund. The Manager may retain or may pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or any other persons. The Manager may from time to time vary the subscription fee up to any maximum specified in the relevant Appendix. The Manager may also charge different applicants different subscription fees.

### **Payment of Subscription Amount**

The Subscription Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of such class of Units in issue, rounded up to the nearest 2 decimal places 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 (“**Subscription Price**”). Any rounding adjustment as a result of determining the Subscription Price will be retained by the relevant Sub-Fund.

Subscription monies should normally be paid in the Base Currency of the Sub-Fund or the currency of denomination of the relevant class of Units of the Sub-Fund. Subject to the agreement of the Trustee or the Manager, arrangements can be made for applicants to pay for Units in most other major currencies and in such cases, the exchange rate will be the prevailing market rate as agreed between the Manager and the Trustee and any cost of currency conversion will be borne by the applicant.

The Subscription Price will be calculated in the Base Currency of the Sub-Fund and quoted by the Manager in that Base Currency. For classes of Units the currency of denomination of which is different from the Base Currency of the Sub-Fund, the Subscription Price will be calculated in that relevant currency of denomination and quoted by the Manager in that relevant currency of denomination. The Subscription Price may also be quoted by the Manager in any other currency or currencies determined at the Manager’s discretion after giving notice to the Trustee. In such case, the rate used for converting the Subscription Price to its equivalent in other currencies will be the same rate the Manager uses to calculate the Net Asset Value as at the Valuation Point or at any other rates as determined by the Manager in its sole discretion. The Manager may, at its discretion impose a subscription fee in respect of Units being subscribed. The subscription fee, if any, is described in the relevant Appendix.

All payments should be made by telegraphic transfer or cheque. Cheques should be crossed “**a/c payee only, not negotiable**” and made payable in the Base Currency of the Sub-Fund to “**BOCI-Prudential Trustee Limited**”, and sent with the completed application form and relevant documents required by the Trustee. Payment by cheque is likely to cause delay in receipt of cleared funds as it normally takes 3 Business Days to clear. Units will not be issued until the cheque is cleared and the Trustee receives the completed application form, together with all relevant documents required by the Trustee. Applicants bear the costs of transfer of subscription monies to the Sub-Fund. No third party payment or cash payment will be accepted. Applicants assume the sole responsibility to provide the payment proof.

Details of payments by telegraphic transfer are set out in the application form enclosed.

**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.**

## **General**

The Manager has the absolute discretion to accept or reject in whole or in part any application for Units. If an application is rejected or the Manager determines that the relevant class of Units or the relevant Sub-Fund and the class or classes of Units related to it will not be launched, subscription monies will be returned without interest by cheque through the post at the risk of the applicant or by telegraphic transfer to the bank account from which the moneys originated at the risk and expense of the applicants (or in such other manner determined by the Manager and the Trustee).

Fractions of Units may be issued rounded down to 2 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the Sub-Fund.

All holdings will be registered and certificates will not be issued. Evidence of title will be the entry on the register of Unitholders. No bearer units will be issued. A maximum of 4 persons may be registered as joint Unitholders. It is important to ensure that the Registrar is informed promptly of any change to the registered details.

## **REDEMPTION OF UNITS**

### **Redemption Procedure**

Unitholders may redeem their Units on any Dealing Day by submitting a redemption request to the Trustee or to an authorised distributor before the relevant redemption request submission cut-off time for the Sub-Fund, as set out in the section headed “**Redemption of Units**” in the relevant Appendix. Investors should confirm the relevant redemption request submission cut-off time with their distributors.

A redemption request must be given in writing or by facsimile or by other means or electronic means as the Manager or the Trustee may from time to time determine and must specify:

- the name of the Sub-Fund;
- the number of Units to be redeemed;
- the name(s) of the Unitholder(s);
- the Unitholder account number (if any); and
- give payment instructions for the redemption proceeds.

Unless otherwise agreed by the Manager and the Trustee, the original of any redemption request sent by facsimile should be forwarded to the Trustee. Neither the Manager nor the Trustee are responsible to a Unitholder for any loss resulting from non-receipt or duplicate receipt or illegibility of any redemption request sent by facsimile.

A Unitholder may not redeem part only of his holding of Units in a Sub-Fund if his holding would be reduced to less than the Minimum Holding for the Sub-Fund. The Manager may redeem all of such Unitholder's Units in the Sub-Fund if the request to redeem a holding of

Units in the Sub-Fund would cause the Unitholder's holding in the Sub-Fund to fall below the Minimum Holding.

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

### **Payment of Redemption Proceeds**

The Redemption Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund (as at the Valuation Point in respect of the relevant Dealing Day) by the number of such class of Units in respect of such Sub-Fund in issue rounded down to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may determine from time to time after consulting the Trustee (the "**Redemption Price**"). Any rounding adjustment as a result of determining the Redemption Price will be retained by the relevant Sub-Fund.

The Redemption Price will be calculated in the Base Currency of the Sub-Fund and quoted by the Manager in the Base Currency. For classes of Units the currency of denomination of which is different from the Base Currency of the Sub-Fund, the Redemption Price will be calculated in that relevant currency of denomination and quoted by the Manager in that relevant currency of denomination. The Redemption Price may also be quoted by the Manager in any other currency or currencies determined at the Manager's discretion after giving prior notice to the Trustee. In such case, the rate used for converting the Redemption Price to its equivalent in other currencies will be the same rate the Manager uses to calculate the Net Asset Value as at the Valuation Point or at any other rates as determined by the Manager in its sole discretion.

The Manager may impose a redemption fee in respect of Units being redeemed. The redemption fee, if any, is described in the relevant Appendix.

The amount due to a Unitholder on the redemption of a Unit pursuant to the paragraphs above is the Redemption Price, less any redemption fee, any fiscal charges imposed by the remittance banks. The fiscal and sales charges (if any), as well as the rounding adjustments in relation to the redemption of any Units will be retained as part of the Sub-Fund. The redemption fee will be retained by the Sub-Fund.

The Fund will not pay redemption proceeds until:

- the Trustee receives the original redemption request signed by the Unitholder (unless the Trustee agrees to a different procedure); and
- the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee where redemption proceeds are to be paid by telegraphic transfer.

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

any information or documentation required by the Trustee and/or the Manager or their respective duly authorised agents for the purpose of verification of identity.

If the Manager or the Trustee is required by the laws of any relevant jurisdiction to make a withholding from any redemption moneys payable to the Unitholder the amount of such withholding shall be deducted from the redemption moneys otherwise payable to such person, provided that the Manager or the Trustee is acting in good faith and on reasonable grounds.

No third party payment will be made.

Redemption proceeds will be paid in the Base Currency (or such other currency as the Manager and the Trustee may determine) of the Sub-Fund by telegraphic transfer normally within 7 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the market(s) in which a substantial portion of investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of the redemption monies within the aforesaid time period not practicable. In such case, payment of redemption monies may be deferred, but the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant market(s). If relevant account details are not provided, redemption proceeds will be paid to the redeeming Unitholder (or to the first-named of joint Unitholders) at the Unitholder's risk by cheque in the Base Currency of the Sub-Fund.

Redemption proceeds can be paid in a currency other than the Base Currency of the Sub-Fund at the request and expense of the Unitholder, subject to the approval of the Trustee and the Manager. In such circumstances, subject to the agreement of the Trustee or the Manager and to the applicable limits on foreign exchange, arrangements can be made for redemption proceeds to be paid in other currencies. In such circumstances, the cost of conversion into the currency requested by the Unitholder will be borne by the Unitholder and deducted from the redemption proceeds, and the Unitholder may suffer loss arising from such currency conversion. The Trustee or the Manager shall use such currency exchange rates as it may from time to time determine. Currency conversion will be subject to availability of the currency concerned. None of the Manager, the Trustee or their respective agents or delegates will be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion. Payment will only be made to a bank account in the name of the Unitholder.

### **Restrictions on Redemption**

The Manager may suspend the redemption of Units or delay the payment of redemption proceeds during any periods in which the determination of the Net Asset Value of the Sub-Fund is suspended (Please refer to the section headed "**Suspension of Calculation of Net Asset Value**" below).

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of any Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders wishing to redeem Units of the same 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, subject

to the same limitation, and will have priority on the next Dealing Day. If redemption requests are carried forward, the Trustee will inform the Unitholders concerned.

## CONVERSION BETWEEN UNITS AND SUB-FUNDS

Subject to the consent of the Manager, Unitholders have the right (subject to any suspension in the determination of the Net Asset Value of any relevant Sub-Fund) to convert all or part of their Units of any class into Units of any other class (whether in the same Sub-Fund or any other Sub-Fund) by giving notice in writing or by facsimile to the Manager or by other means or electronic means as the Manager or the Trustee may from time to time determine.

Conversion notices received by the Manager prior to 4:00 p.m. (Hong Kong time) on a Dealing Day will be dealt with on that Dealing Day. Conversion notices received after that time or on a day that is not a Dealing Day will be carried forward and dealt with on the next Dealing Day. Where a conversion notice is made by facsimile, neither the Manager nor the Trustee are responsible to any Unitholder for any loss resulting from the non-receipt of such conversion notice.

The price at which the whole or any part of a holding of Units of a class (the “**Current Class**”) will be converted on any Dealing Day into Units of another class (the “**New Class**”) will be determined by reference to the Redemption Price of the Current Class and Subscription Price of the New Class on the relevant Dealing Day. The number of Units of the New Class to be issued on conversion are to be determined by the Manager in accordance with the formula set out in the Trust Deed. Unless otherwise specified in the section headed “**Expenses and Charges**” below, no subscription fee or redemption fee will be levied.

The Manager is entitled to levy a conversion fee expressed as a percentage of the issue price per Unit of the New Class to be issued. The conversion fee will be deducted from the amount re-invested into the New Class of Units. The amount of conversion fee is set out in the section headed “**Expenses and Charges**” below, unless otherwise specified in the Appendix of the original Sub-Fund.

No conversion will be allowed during any period when the determination of the Net Asset Value of any relevant Sub-Fund is suspended (Please refer to the section headed “**Suspension of Calculation of Net Asset Value**”). Unitholders should also note that the requirements on:

- minimum subscription;
- minimum holding; and
- minimum redemption amount,

as set out in the Appendix of the original Sub-Fund also apply to conversions.

## VALUATION

The Net Asset Value of each Sub-Fund is calculated by determining the value of the assets attributable to the Sub-Fund, including accrued income, and deducting all its liabilities. The resultant sum is divided by the total number of Units in issue at that time to give the Net Asset Value per Unit and adjusting the resultant sum to the nearest 2 decimal places.

The value of the net assets of each Sub-Fund, the Subscription Price and Redemption Price will be calculated by the Trustee as at each Valuation Point by valuing the assets of the Sub-Fund in accordance with the Trust Deed. The Trust Deed provides (inter alia) that:

- (a) except in the case of any interest in a collective investment scheme to which paragraph (b) applies and subject as provided in paragraphs (c) and (f) below, all calculations based on the value of securities quoted, listed, traded or dealt in on any securities market shall be made by reference to the last traded price (as defined below) on the principal securities exchange as at the close of business in such place or if the last traded prices on the market are not available, the value of the securities shall be certified by such person, firm or institution dealing in or making a market in such securities as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee. In determining such prices the Manager and the Trustee are entitled to use and rely on electronic price feeds generated by price dissemination systems from such source or sources as they may determine from time to time and shall have no liability to any Unitholders in respect of such reliance. If the electronic price feeds generated by such price dissemination systems reflect unusual price data and information, as determined in the opinion of the Manager, the Manager after consultation with the Trustee, will determine the fair value of the assets for the purposes of valuing the Net Asset Value of the relevant Sub-Fund;
- (b) subject as provided in paragraphs (c) and (f) below, the value of each interest in any collective investment scheme will be the latest available net asset value per unit in such collective investment scheme whether or not published or (if the same is not available) the last available bid price for such unit or share or other interest;
- (c) the value of any investment which is not listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the relevant Sub-Fund in the acquisition of such investment (including in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may with the approval of the Trustee and on a regular basis at the request of the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investment;
- (d) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager following consultation with the Trustee, any adjustment should be made to reflect the value thereof;
- (e) notwithstanding the foregoing, 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 or use of such other method is required to reflect the fair value of the investment provided always that the accounting standards under the relevant jurisdiction are being complied with; and
- (f) the value of any investment (whether of a security or cash) otherwise than in the Base Currency of the relevant Sub-Fund will be converted into such Base Currency at the rate (whether official or otherwise) which the Manager believes appropriate in the

circumstances, having regard to any premium or discount which may be relevant and to costs of exchange.

**“Last traded price”** refers to the last traded price reported on the exchange for the day, commonly referred to in the market as the “settlement” or “exchange price”, and represents a price at which members of the exchange settle between them for their outstanding positions. Where a security has not traded then the last traded price will represent the “exchange close” price as calculated and published by that exchange in accordance with its local rules and customs.

Under IFRS the value of investments quoted, listed, traded or dealt in on any securities exchange, commodities exchange, futures exchange or over-the-counter market are made by reference to the closing bid (for long positions) and closing offer (for short positions) price. Since the Fund values its investments by reference to the last traded price, its valuation policy deviates from IFRS, which may lead to a different valuation had the valuation been performed in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the Net Asset Value of the respective Sub-Fund materially. To the extent the Fund’s valuation policy deviates from IFRS, the Manager may make necessary adjustments in the accounts of the Fund for the accounts to be in compliance with IFRS and will include in the Fund’s annual accounts a reconciliation note to reconcile values derived by applying the Fund’s valuation rules. If the Net Asset Value of the relevant Sub-Funds and the Fund is not adjusted in preparation of the annual accounts, non-compliance with IFRS may result in the auditor qualifying its opinion on the annual accounts, depending on the nature and level of materiality of the non-compliance.

Where a third party is engaged in the valuation of the assets of a Sub-Fund, the Manager shall exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of such third party in ensuring such entity possesses the appropriate level of knowledge, experience and resources is commensurate with the valuation policies and procedures for such Sub-Fund. The valuation activities of such third party shall be subject to ongoing supervision and periodic review by the Manager.

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

The Manager may, after consultation with the Trustee, having regard to the best interests of Unitholders, suspend the determination of the Net Asset Value of a Sub-Fund for the whole or any part of any period during which:

- (a) any period when any Market on which a substantial part of the securities or other property in the relevant Sub-Fund (being the Sub-Fund to which that class of Units relates) is quoted, listed or dealt in is closed otherwise than for ordinary holidays;
- (b) any period when dealings on any such Market are restricted or suspended;
- (c) during the existence of any state of affairs as a result of which disposal of any of the securities or other property in the relevant Sub-Fund cannot, in the opinion of the Manager after consultation with the Trustee, be effected normally or without seriously prejudicing the interests of Unitholders;



- (d) during any breakdown in the means of communications normally employed in determining the Net Asset Value of the relevant Sub-Fund or when for any other reason the value of any securities or other property in the relevant Sub-Fund cannot be promptly and accurately ascertained;
- (e) any period when the redemption of securities or other property in the relevant Sub-Fund or the transfer of funds involved in such realisation cannot, in the opinion of the Manager after consultation with the Trustee, be made at normal prices or normal rates of exchange; and
- (f) any period when the payment or receipt of the proceeds of the realisation of any of the securities or other property in the relevant Sub-Fund is delayed due to exceptional circumstances.

Such suspension will take effect immediately upon the Manager's declaration and thereafter there will be no determination of the Net Asset Value of the Sub-Fund until the Manager declares the suspension at an end; however the suspension will terminate in any event on the day following the first Business Day on which (i) the condition giving rise to the suspension has ceased to exist and (ii) no other condition under which suspension is authorised exists.

Whenever the Manager declares such a suspension it shall immediately after any such declaration notify the SFC. During the period of such suspension, the Manager shall also, (i) immediately publish its determination and (ii) at least once month, publish a notice on the website <http://www.tpahk.cntaiping.com>. This website has not been reviewed by the SFC.

No Units in the Sub-Fund may be issued, redeemed or converted during suspension.

### **DISTRIBUTION POLICY**

The Manager will adopt a distribution policy for each Sub-Fund as the Manager considers appropriate having regard to each Sub-Fund's net income, fees and costs. Please refer to the relevant Appendix for the distribution policy of the relevant Sub-Fund. Unless otherwise specified in the relevant Appendix, no distribution will be paid out of capital or effectively out of capital of the relevant Sub-Fund.

### **EXPENSES AND CHARGES**

The current fees of the Sub-Fund are set out in the relevant Appendix. Unless otherwise disclosed in the relevant Appendix, the types of fees and maximum amount of fees are set out below:

<u>Types of Fees*</u>	<u>Fees</u>
Management fee	Up to 3% per annum
Trustee fee <sup>^</sup>	0.175% per annum
Subscription fee	Up to 5% (on the Issue Price per Unit issued)
Redemption fee	Up to 4% (on the Redemption Price per Unit)
Conversion fee	Up to 3% (on the Issue Price per Unit of the new class)

<sup>^</sup> Percentage of trustee fee excludes transaction fee, out-of-pocket expenses and custodian and sub-custodian fees and will be subject to a minimum monthly fee as agreed between the Manager and the Trustee in respect of the Sub-Fund.

\* The management and the trustee fees are expressed as a percentage of the Net Asset Value of the Sub-Fund as at the relevant Valuation Point, and the subscription fee, the redemption fee and the conversion fee will be calculated based on the total value of Units subscribed, redeemed or converted (as the case may be) by the investor or Unitholder.

If the Fund invests in other collective investment schemes managed by the Manager or its connected person, the Unitholders or the Fund will not bear any increase in the Management Fee or any cost and charges payable to the Manager or any of its connected person.

Unitholders shall be given not less than 1 month's prior notice should there be any increase of the management fee or trustee fee from the current level to the maximum level. Any increase in the maximum level of the management fee or trustee fee of a Sub-Fund (or any class thereof) shall be subject to the SFC's prior approval and the sanction of Extraordinary Resolution of the Unitholders of such Sub-Fund (or such class).

The Sub-Fund will bear the costs set out in the Trust Deed that are directly attributable to it. Where such costs are not directly attributable to the Sub-Fund, the Sub-Fund will bear such costs in proportion to its respective Net Asset Value or in such other manner as the Manager shall consider appropriate. Such costs include, but are not limited to, the costs incurred in the establishment, management and administration of the Fund and the Sub-Fund including the costs of preparing the Trust Deed and any supplemental trust deeds), the costs of investing and realising the investments of the Sub-Fund, stamp duties, taxes, brokerage, commissions, foreign exchange costs, bank charges, registration fees and service fees, the fees and expenses of custodians of the assets of the Fund, the fees and expenses of the auditor, the fees and expenses of the Registrar, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders, the costs of preparing accounts in accordance with IFRS or other prescribed accounting standards, the costs of providing information for the preparation of tax returns of the Sub-Fund and the Unitholders, the costs incurred in preparing, printing and distributing any explanatory memorandum and any audited accounts, interim reports or notices which are sent to the Unitholders (including the costs incurred by any distributors appointed in respect of the Sub-Fund), the licence fees payable to any index owners and other legal and professional fees. For the avoidance of doubt, the Fund bears all costs incurred as a result of a change in or introduction of, any law, regulation

or requirement (whether or not having the force of law) of any governmental or other regulatory authority or any undertaking given to, or agreement entered into with, any such authority.

The establishment costs and payments incurred in the establishment of subsequent Sub-Funds are to be borne by the Sub-Fund to which such costs and payments relate and amortised over the amortisation period as set out in the relevant Appendix.

In addition to the above, Unitholders may be required to pay any requisite governmental tax, stamp duty, registration fee, custody and nominee charges as may be required in the purchase or sale of the Units under the Fund.

### **Transactions with Connected Persons**

Cash forming part of the property of the Fund may be placed on deposit with the Trustee, the Manager, the Investment Delegate (if any) or with any of their connected persons (being an institution licensed to accept deposits) so long as such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders, having regard to the prevailing commercial rate for deposits of similar type, size and term negotiated at arm's length and in accordance with ordinary and normal course of business.

Unless otherwise provided in the Trust Deed, any transactions between the Fund or any Sub-Fund and the Manager, the Investment Delegate (if any), directors of the Manager or any of their connected persons as principal may only be made with the prior written consent of the Trustee. All such transactions will be disclosed in the annual report of the Fund or the Sub-Fund.

All transactions carried out by or on behalf of the Fund must be executed at arm's length and executed on the best available terms and in the best interests of the Unitholders.

The Manager, the Investment Delegate (if any) and/or any of their connected persons reserves the right to effect transactions (which will be consistent with best execution standards) by or through the agency of another person with whom the Manager, the Investment Delegate (if any) and/or any of their connected persons has an arrangement under which that party will from time to time provide to or procure for the Manager and/or any of its connected persons goods, services or other benefits (such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software associated with specialised software or research services and performance measures incidental to the above goods and services, clearing and custodian services and investment-related publications) the nature of which is such that their provision can reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund or of the Manager and/or any of its connected persons in providing services to the Fund and for which no direct payment is made but instead the Manager and/or any of its connected persons undertakes to place business with that party. The Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the Unitholders (taken as a body and in their capacity as such) whether by assisting the Manager and/or the Investment Delegate (if any) and in their ability to manage the relevant Sub-Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full service brokerage rates; (iii) periodic disclosure is made in the annual report of the Fund or the

relevant Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the Investment Delegate, including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

In effecting transactions for the account of any Sub-Fund with brokers or dealers connected to the Manager, the Investment Delegate (if any), the Trustee or any of their connected persons, the Manager shall ensure that it complies with the following requirements:

- (a) such transactions should be on arm's length terms;
- (b) the Manager must use due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) transaction execution must be consistent with applicable best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction must not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
- (e) the Manager must monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer shall be disclosed in the annual report of the relevant Sub-Fund.

The Manager does not receive any cash rebates from connected parties, brokers and/or dealers.

## **RISK FACTORS**

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

### **General Investment Risk**

Investments involve risks. A Sub-Fund's investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the relevant Sub-Fund may suffer losses. There is no guarantee of the repayment of principal.

## **Market Risk**

A Sub-Fund's investment strategy is subject to some dimension of market risk: directional price movements, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality," "credit squeezes," etc.

The particular or general types of market conditions in which the relevant Sub-Fund may incur losses or experience unexpected performance volatility cannot be predicted, and the Sub-Fund may materially underperform other investment funds with substantially similar investment objectives and approaches.

## **Liquidity Risk**

Liquidity relates to the ability of a Sub-Fund to sell an investment or unwind a position in a timely manner to prevent or minimise loss or to meet a Sub-Fund's financial obligations. Some of the markets in which a Sub-Fund invests may be less liquid and more volatile than the world's leading stock markets and this may result in the fluctuation in the price of securities traded on such markets. Certain securities may be difficult or impossible to sell, and this would affect a Sub-Fund's ability to acquire or dispose of such securities at their intrinsic value. A Sub-Fund may encounter difficulties in valuing and/or disposing of assets at their fair price due to adverse market conditions and/or large-scale redemptions. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market in such contracts, and the bid and offer prices will be established solely by dealers in these contracts. This may also expose a Sub-Fund to the risk that a particular investment or position cannot be unwound or offset easily.

If sizeable redemption requests are received, a Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and a Sub-Fund may suffer losses in trading such investments. As a result, this may have adverse impact on a Sub-Fund and its investors.

## **Emerging Markets Risk**

A Sub-Fund may invest in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. Risks associated with investments in emerging markets include (i) greater risk of expropriation, confiscatory taxation, nationalisation, and social, political and economic stability; (ii) the small current size of the markets for securities of emerging markets issuers and the currently low or non-existent volume of trading, resulting in lack of liquidity and in price volatility, (iii) certain national policies which may restrict the Sub-Fund's investment opportunities including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and repatriation of capital; and (iv) the absence of developed legal structures governing private or foreign investment. These risks may adversely affect the Net Asset Value of the Sub-Fund and thus the Sub-Fund's performance.

## **Concentration Risk**

A Sub-Fund's investments may be concentrated in a specific country/region/sector/asset class. The value of the relevant Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

For a Sub-Fund which is concentrated in a particular country/region, the value of the Sub-Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the market in the relevant country/region.

## **Foreign Exchange/Currency Risk**

The underlying investments of a Sub-Fund may be denominated in currencies other than the Base Currency of the relevant Sub-Fund. Also, a class of Units may be designated in a currency other than the Base Currency of the relevant Sub-Fund. The Net Asset Value of a Sub-Fund may be affected unfavorably by fluctuations in the exchange rates between these currencies and the Base Currency and by changes in exchange rate controls.

It may not be possible or practicable to hedge against the consequent foreign exchange/currency risk exposure. As a result, a Sub-Fund may suffer losses.

## **Settlement Risk**

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

## **Custodial Risk**

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

## **Counterparty Risk**

Counterparty risk involves the risk that a counterparty or third party will not fulfil its obligations to a Sub-Fund. A Sub-Fund may be exposed to the risk of a counterparty through investments such as bonds, futures and options. To the extent that a counterparty defaults on

its obligations and a Sub-Fund is prevented from exercising its rights with respect to the investment in its portfolio, a Sub-Fund may experience a decline in the value and incur costs associated with its rights attached to the security. The Sub-Fund may sustain substantial losses as a result.

### **Political and/or Regulatory Risks**

The value of a Sub-Fund's investments may be affected by uncertainties such as international political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Furthermore, the legal infrastructure and accounting, auditing and reporting standards in certain countries in which investment may be made may not provide the same degree of investor protection or information to investors as would generally apply in major securities markets. Foreign ownership restrictions in some markets may mean that corporate actions entitlements in relation to any collective investment schemes or other investments a Sub-Fund is invested into may not always be secured or may be restricted.

### **Market Disruptions; Governmental Intervention**

The global financial markets are currently undergoing pervasive and fundamental disruptions which have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition — as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action — these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

Confusion and uncertainty have also resulted from the apparent inconsistency which has characterized recent governmental actions. Such inconsistency has caused both severe losses for a number of market participants — who assumed either no intervention or intervention consistent with past precedent — and contributed to the general uncertainty and resulting illiquidity of the markets.

### **Hedging Risk**

The Manager does not, in general, attempt to hedge all market or other risks inherent in a Sub-Fund's positions, and hedges certain risks, if at all, only partially. Specifically, the Manager may choose not, or may determine that it is economically unattractive, to hedge certain risks, either in respect of particular positions or in respect of the relevant Sub-Fund's overall portfolio. The Sub-Fund's portfolio composition may result in various directional market risks remaining unhedged, although the Manager may rely on diversification to control such risks to the extent that the Manager believes it is desirable to do so. In adverse situation, a Sub-Fund's hedging strategy may become ineffective and the Sub-Fund may suffer significant losses.

## **Volatility Risk**

The prices of the instruments that will be traded by a Sub-Fund may be subject to periods of excessive volatility. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions.

While volatility can create profit opportunities for the Manager and the relevant Sub-Fund, it can also create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur significant losses. On the other hand, the lack of volatility can also result in losses for certain of the Sub-Fund's positions that profit from price movements.

## **Importance of the Manager**

A Sub-Fund must rely on the ability of the Manager to manage the Sub-Fund's trading and investment program and the continued availability of the Manager's services to it. The Manager, in turn, is dependent on the services of certain key personnel, and the loss of the services of one or more such professionals could impair the ability of the Manager to provide services to the Fund and the Sub-Fund and be material and adverse to the Fund and each of the Sub-Fund.

## **Competitive Nature for Investments**

The Manager competes with a large number of firms, many of which have substantially greater financial resources as well as larger research and trading staffs than are available to the Manager. Competitive investment activity by other firms may reduce a Sub-Fund's opportunity for profit by reducing the magnitude as well as the duration of the market inefficiencies which it seeks to exploit.

## **Reliance on Corporate Management and Financial Reporting**

The investment strategy implemented by a Sub-Fund may rely on the financial information made available by issuers in which the relevant Sub-Fund invests and such issuers' trustees or managers. The Manager has no ability to independently verify the financial information disseminated by these third parties and is dependent upon the integrity of both the management of these third parties and the financial reporting process in general. Recent events have demonstrated the material losses that investors such as a Sub-Fund can incur as a result of corporate mismanagement, fraud and accounting irregularities.

## **Cross Liability between Sub-Funds**

Each Sub-Fund will represent a separate account and will be maintained with separate accounting records. However, the Fund may, in certain jurisdictions, be treated as one entity despite the separation of assets of Sub-Funds provided for in the Trust Deed. In such case, any of the assets of the Fund attributable to one Sub-Fund may be available to meet the liabilities of other Sub-Funds or of the Fund generally, regardless of the separate portfolio or account of the relevant Sub-Fund to which the assets or liabilities are attributable. In practice the risk of cross class liability is notable where one Sub-Fund holds investments which are more leveraged than another less or unleveraged Sub-Fund, and can arise where any Sub-Fund becomes



insolvent or exhausts its assets and is therefore unable to meet all its liabilities. As at the date of this Explanatory Memorandum, the Manager is not aware of any such existing or contingent liability.

### **Risk of Loss; Past Performance**

Investors may lose all or substantially all of their investment in the Fund and the Sub-Fund. There can be no assurance the relevant Sub-Fund will achieve its objective. Past performance of each Sub-Fund is available upon request but is not necessarily indicative of future results. The markets in which the Fund operates have been severely disrupted over the past year or more, so results observed in earlier periods may have little relevance to the results observable in the current environment.

### **Possible Adverse Tax Consequences**

The Manager's investment decisions will be based primarily upon economic, not tax, considerations, and could result, from time to time, in adverse tax consequences to some or all investors.

### **Risk relating to Foreign Account Tax Compliance Act**

The amendments to the Internal Revenue Code made pursuant to the US Hiring Incentives to Restore Employment Act ("i.e., **FATCA**") provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions ("**FFIs**"), such as the Fund and the Sub-Funds, unless they comply with the terms of the FFI Agreement, including disclosing the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the Fund/Sub-Fund, as well as certain other information relating to any such interest.

Although the Fund and the Sub-Funds will attempt to satisfy any obligations imposed on them and to avoid the imposition of any FATCA withholding, no assurance that the Fund or the Sub-Fund will be able to achieve this and/or satisfy such FATCA obligations can be given. If the Fund or a Sub-Fund becomes subject to a 30% FATCA withholding on most types of income from US investments (further described under the sub-heading "**FATCA**" in the section of "**Taxation**" of this Explanatory Memorandum) as a result of the FATCA regime, the value of the Units held by Unitholders in the relevant Sub-Fund may suffer material losses.

### **Possibility of Additional Government or Market Regulation**

There have recently been certain well-publicized incidents of regulators unexpectedly announcing regulatory changes or interpretations that prohibited strategies that had been implemented in a variety of formats for many years. For instance, in September 2008 various regulatory bodies imposed temporary bans on short-selling in a variety of stocks, and adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions were generally regarded as disrupting market fundamentals and causing unexpected and volatile increases in the stock prices of a variety of issuers, as short sellers closed out their positions by buying securities. Market disruptions like those experienced in the credit-driven equity market collapse in 2008 has led to increased governmental scrutiny of the investment fund industry in general. Increased governmental as well as self-regulatory scrutiny of mutual and other forms of retail funds cannot be discounted.

## **Risk of Early Termination**

The Fund and/or any of its Sub-Fund may be terminated early upon the occurrence of certain events as set out in the section headed “**Termination of the Fund or any Sub-Fund**” of this Explanatory Memorandum. In particular, the Manager may, in its absolute discretion, decide to terminate a Sub-Fund at any time if any of the following circumstances occur: (i) the average Net Asset Value of a Sub-Fund falls under HK\$39,000,000 or the equivalent in US dollars or other currencies over 12 consecutive calendar months; (ii) it becomes illegal or in the opinion of the Manager impracticable or inadvisable to continue the Sub-Fund; or (iii) the Sub-Fund ceases to be authorised or otherwise officially approved by the SFC. If the Manager decides to terminate a Sub-Fund, the Manager will give not less than 3 months’ notice to the Trustee and the Unitholders outlining the reasons for the termination, alternatives available to Unitholders and the expected costs involved in terminating the Sub-Fund.

## **Risk of Litigation**

In the ordinary course of its business, the Fund may be subject to litigation from time to time. The outcome of litigation, which may materially adversely affect the value of the Fund, may be impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Manager’s time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

## **Risks associated with Stock Connect**

The Sub-Fund, by investing through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (together, “**Stock Connect**”), will be subject to the following additional risks:

### ***Quota limitations***

The Stock Connect is subject to quota limitations. In particular Stock Connect is subject to a daily quota which does not belong to the Fund and can only be utilised on a first-come-first serve-basis. Once the daily quota is exceeded, buy orders will be rejected (although investors will be permitted to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the relevant Sub-Fund’s ability to invest in China A-Shares through Stock Connect on a timely basis, and the relevant Sub-Fund may not be able to effectively pursue its investment strategies.

### ***Suspension risk***

It is contemplated that both SEHK and SSE and/or SZSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading through Stock Connect is effected, the relevant Sub-Fund’s ability to access the Mainland China market (and hence its ability to pursue its investment strategy) will be adversely affected.

### ***Differences in trading day***

Stock Connect will only operate on days when both the Mainland China and Hong Kong markets are open for trading. So it is possible that there are occasions when it is a normal trading day for the Mainland China market but Hong Kong investors (such as the Sub-Fund) cannot carry out any China A-Shares trading. The Sub-Fund may be subject to a risk of price fluctuations in China A-Shares during the time when the Mainland China markets are open for trading but the Hong Kong stock market is closed, and the Stock Connect is not trading as a result.

### ***Operational risk***

The Stock Connect provides a channel for investors from Hong Kong and overseas to access the Mainland China stock market directly.

The Stock Connect is premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in this program subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house.

It should be appreciated that the securities regimes and legal systems of the two markets differ significantly and in order for the program to operate, market participants may need to address issues arising from the differences on an on-going basis.

Further, the “connectivity” in Stock Connect program requires routing of orders across the border. SEHK has set up an order routing system (“**China Stock Connect System**”) to capture, consolidate and route the cross boundary orders input by exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems fail to function properly, trading in both markets through the program could be disrupted. The relevant Sub-Fund’s ability to access the China A-Share market (and hence to pursue its investment strategy) will be adversely affected.

### ***Restrictions on selling imposed by front-end monitoring***

Mainland China regulations require that before an investor sells any share, there should be sufficient shares in the account; otherwise SSE or SZSE will reject the sell order concerned. SEHK will carry out pre-trade checking on China A-Shares sell orders of its participants (i.e. the stock brokers) to ensure there is no over-selling.

However, the Sub-Fund may request a custodian to open a special segregated account (“**SPSA**”) in CCASS to maintain its holdings in China A-Shares under the enhanced pre-trade checking model. Each SPSA will be assigned a unique “Investor ID” by CCASS for the purpose of facilitating China Stock Connect System to verify the holdings of an investor such as the relevant Sub-Fund. Provided that there is sufficient holding in the SPSA when a broker inputs the relevant Sub-Fund’s sell order, the Sub-Fund will be able to dispose of its holdings of China A-Shares (as opposed to the practice of transferring China A-Shares to the broker’s account under the current pre-trade checking model for non-SPSA accounts). Opening of the SPSA accounts for the relevant Sub-Fund will enable it to dispose of its holdings of China A-Shares in a timely manner.

### ***Foreign shareholding restrictions on A Shares***

Investments in A Shares through Stock Connect are subject to the following shareholding restrictions:

- Single foreign investors' shareholding by any Hong Kong or overseas investor (such as the Sub-Fund) in an A Share must not exceed 10% of the total issued shares; and
- Aggregate foreign investors' shareholding by all Hong Kong and overseas investors (such as the Sub-Fund) in an A Share must not exceed 30% of the total issue shares.

When Hong Kong and overseas investors carry out strategic investments in listed companies in accordance with the "Measures for the Administration of Strategic Investment of Foreign Investors in Listed Companies", the shareholding of the strategic investments is not capped by the above-mentioned percentages.

Should the shareholding of a single investor in an A Share listed company exceed the above restriction, the investor would be required to unwind his position on the excessive shareholding according to a last-in-first-out basis within a specific period. The SSE, SZSE and the SEHK will issue warnings or restrict the buy orders for the related A Shares if the percentage of total shareholding is approaching the upper limit.

As there are limits on the total shares held by all underlying foreign investors in one listed company in the PRC, the capacity of the Sub-Fund to make investments in A Shares will be affected by the activities of all underlying foreign investors investing through Stock Connect.

### ***Short swing profit rule***

According to the PRC Securities Law, a shareholder of 5% or more of the total issued shares of a PRC listed company ("**major shareholder**") has to return any profits obtained from the purchase and sale of shares of such PRC listed company if both transactions occur within a six-month period. In the event that the Fund or the Sub-Fund becomes a major shareholder of a PRC listed company by investing in A Shares via Stock Connect, the profits that the Sub-Fund may derive from such investments may be limited.

### ***Recalling of eligible stocks***

When a stock is recalled from the scope of eligible stocks for trading via Stock Connect, the stock can only be sold but will be restricted from being bought. This may affect the investment portfolio or strategies of the Sub-Fund, for example, when the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

### ***Clearing and settlement risk***

The HKSCC and ChinaClear have established the clearing links and each becomes a participant of each other to facilitate clearing and settlement of cross-border trades. For crossborder trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.

Should the remote event of ChinaClear default occur and ChinaClear be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against ChinaClear. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from ChinaClear through available legal channels or through ChinaClear's liquidation. In that event, the Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from ChinaClear.

### ***Participation in corporate actions and shareholders' meetings***

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

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

### ***Investor Compensation***

Investment through the Stock Connect program is conducted through broker(s), and is subject to the risks of default by such brokers' in their obligations.

Since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland Chinese brokers, they are not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China.

### ***Regulatory risk***

Stock Connect is novel in nature and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under Stock Connect.

It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current regulations are subject to change. There can be no assurance that Stock Connect will not be abolished. The Sub-Fund, which may invest in the PRC markets through Stock Connect, may be adversely affected as a result of such changes.

### ***Taxation risk***

According to a circular of Caishui [2014] no. 81 jointly issued by PRC Ministry of Finance ("MOF"), State Taxation Administration ("STA") and China Securities Regulatory Commission ("CSRC") on 14 November 2014, the capital gains realised by the Sub-Fund from

trading of eligible A Shares on the SSE and SZSE under Stock Connect currently enjoy a temporary exemption from PRC income tax and PRC business tax (replaced by Value-added Tax). However, it is uncertain when such exemption will expire and whether other PRC taxes will be applicable to trading of SSE and SZSE Securities under Stock Connect in the future. The dividends derived from SSE Securities are subject to a 10% PRC withholding tax, except that investors who are tax residents of other countries which have entered into tax treaties with the PRC whereunder the applicable tax rate for dividends is lower than 10% may apply to the competent tax authority for applying the lower tax rate under the treaty. PRC stamp duty is also payable for transactions in SSE and SZSE Securities under Stock Connect. Given that the relevant tax guidance concerning Stock Connect was issued on 14 November 2014 and is yet to be established in the administrative practice of the PRC tax authorities, there are uncertainties as to how the guidance would be implemented in practice. In addition, the PRC tax authorities may issue further guidance on the tax consequences relating to SSE and SZSE Securities at any time and, as a result, the PRC tax positions of the Sub-Fund may change accordingly.

According to the above, the Sub-Fund will not make any PRC income tax or business tax (replaced by Value-added Tax) provision for realised and unrealised gains derived from trading SSE and SZSE Securities under Stock Connect until and unless a tax provision is required by any further guidance issued by PRC tax authorities.

### **Risks associated with ChiNext market and/or STAR Board**

The Sub-Fund may invest in ChiNext market of the SZSE and/or the Science and Technology Innovation Board (“**STAR Board**”) via the Stock Connect. Investments in ChiNext market and/or STAR Board may result in significant losses for the Sub-Fund and their investors. The following additional risks apply:

#### **Higher fluctuation on stock prices**

Listed companies on ChiNext market and/or STAR Board are usually of emerging nature with smaller operating scale. Listed companies on ChiNext market and STAR Board are subject to wider price fluctuation limits, and due to higher entry thresholds for investors may have limited liquidity, compared to other boards. Hence, companies listed on these boards are subject to higher fluctuation in stock prices and liquidity risks and have higher risks and turnover ratios than companies listed on the main board.

#### **Over-valuation risk**

Stocks listed on ChiNext market and/or STAR Board may be overvalued and such exceptionally high valuation may not be sustainable. Stock price may be more susceptible to manipulation due to fewer circulating shares.

#### **Differences in regulations**

The rules and regulations regarding companies listed on ChiNext market and STAR Board are less stringent in terms of profitability and share capital than those in the main boards.

### **Delisting risk**

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

### **Concentration risk**

STAR Board is a newly established board and may have a limited number of listed companies during the initial stage. Investments in STAR Board may be concentrated in a small number of stocks and subject the fund to higher concentration risk.

### **Risk associated with investment made through QI regime**

The Sub-Fund's ability to make the relevant investments or to fully implement or pursue its investment objective and strategy is subject to the applicable laws, rules and regulations (including restrictions on investments and repatriation of principal and profits) in the PRC, which are subject to change and such change may have potential retrospective effect. Qualified Investors ("QI") refers to qualified foreign institutional investors who have been approved by the CSRC to invest in the PRC securities and futures markets.

The Sub-Fund's may suffer substantial losses if the approval of the QI status is being revoked/terminated or otherwise invalidated as the fund may be prohibited from trading of relevant securities and repatriation of the fund's monies, or if any of the key operators or parties (including QI custodian/brokers) is bankrupt/in default and/or is disqualified from performing its obligations (including execution or settlement of any transaction or transfer of monies or securities).

### **Risks associated with investments in financial derivative instruments**

Risks associated with financial derivative instruments ("FDI") include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of an FDI can result in a loss significantly greater than the amount invested in the FDI by the Sub-Fund. Exposure to FDI may lead to a high risk of significant loss by the Sub-Fund.

## **LIQUIDITY RISK MANAGEMENT**

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

The day-to-day liquidity risk management of the Sub-Fund is carried out by the Manager's risk management function which is functionally independent from the portfolio investment function. The oversight of the liquidity risk management function will be performed by a investment committee consisting of responsible officers and senior staff such as the chief investment officer, chief risk officer, head of investment, head of risk & compliance

management. The committee generally meets on a quarterly basis. A comprehensive risk report (including liquidity risk) of each Sub-Fund will be generated by the Manager's risk team at the end of each month and will be submitted to the risk management function. Exceptions on liquidity risk related issues will be escalated to the chief investment office and chief risk officer, and the investment committee.

The Manager would regularly assess the liquidity of each Sub-Fund's assets under the current and likely future market conditions. The Manager may also set an internal limit as to each individual investment that may be held by a Sub-Fund.

The Manager may also be in regular communication with distributors and substantial investors of the relevant Sub-Fund in order to receive updates on investor profile and their historical and expected redemption patterns. Through such communication, the Manager can make better assessment as to the expected redemptions (especially substantial redemptions) from the relevant Sub-Fund in the future.

The Manager may use a range of quantitative metrics and qualitative factors in assessing the liquidity of a Sub-Fund's assets including the following:

- the volume and turnover in the security;
- (where the price is determined by the market) the size of the issue and the portion of the issue that the Manager plans to invest in;
- the cost and timeframe to acquire or sell the securities;
- an independent analysis of historic bid and offer prices which may indicate the relative liquidity and marketability of the security; and
- the quality and number of intermediaries and market makers dealing in the security concerned.

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

The liquidity management policy involves monitoring the profile of investments held by the Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "REDEMPTION OF UNITS", and will facilitate compliance with the Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Fund under normal and exceptional market conditions.

As liquidity risk management tools, the Manager may:

- (i) limit the number of Units of any Sub-Fund redeemed on any Dealing Day to 10% of the total number of Units of the relevant Sub-Fund in issue, as detailed in sub-section headed "Restrictions on Redemption" under the section headed "REDEMPTION OF UNITS";
- (ii) suspend the calculation of Net Asset Value of a Sub-Fund subject to the conditions set out in sub-section headed "Suspension of Calculation of Net Asset Value" under the section headed "VALUATION", which in turn allows the Manager to suspend a



redemption request, or delay the payment of any monies in respect of redemption of Units; and

- (iii) borrow up to 10% of the latest available Net Asset Value of each Sub-Fund for the purpose of meeting redemption requests or defraying operating expenses, as detailed in the section headed “INVESTMENT AND BORROWING RESTRICTIONS” and Schedule 1 of this Explanatory Memorandum.

In practice, the Manager will consult the Trustee before the use of any liquidity risk management tools. Investors should note that there is a risk that the tools may be ineffective to manage liquidity and redemption risk.

## **TAXATION**

This summary of certain tax considerations is considered to be a correct interpretation of existing laws and regulations in force on the date of this Explanatory Memorandum. No assurance can be given that changes in existing laws or regulations or their interpretation will not occur after the date of this Explanatory Memorandum.

Each prospective Unitholder should inform himself of, and where appropriate take advice on, the taxes applicable to the acquisition, holding and redemption of Units by him under the laws of the places of his citizenship, residence and domicile.

### **Hong Kong**

#### ***Taxation of the Fund***

The Fund will be exempted from profits tax in Hong Kong upon authorization by the SFC as a collective investment scheme under Section 104 of the SFO for offer to the retail public in Hong Kong.

#### ***Taxation of Unitholders***

Profits arising on the transfer or redemption of an investment in the Units should only be subject to profits tax for Unitholders who carry on a trade or business in Hong Kong of trading in investments (for example, dealers in securities, financial institutions or insurance companies), where the profits, not being regarded as capital in nature, arise in or derived from such trade or business carried on in Hong Kong (that is, such profits are sourced in Hong Kong).

Profits tax is currently imposed at a rate of 16.5% for corporations and 15% for all other persons.

Distributions received by Unitholders that do not carry on a trade or business of trading in investments from their investments in the Units should generally not be chargeable to tax in Hong Kong (whether by way of withholding or otherwise) under current law and practice.

#### ***Stamp Duty***

No Hong Kong stamp duty is payable in relation to the issuance or redemption of Units.

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

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

## **PRC**

### ***The Fund and Sub-Fund are not operated as PRC tax-resident enterprises***

The PRC Corporate Income Tax (“CIT”) Law, which came into effect on 1 January 2008, introduced the concept of tax resident enterprises, whereby a foreign company, even though established outside of the PRC, will be considered a resident enterprise (“TRE”) and thus be subject to PRC CIT at the rate of 25% on its worldwide income, if such company’s “place of effective management” is located in the PRC. The implementation regulations define the “place of effective management” as the place where the exercise, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc. of a foreign company is located. In 2009, the State Taxation Administration (“STA”) has issued interpretative guidelines on the “place of effective management” for foreign companies substantially owned by PRC investors, however, it is uncertain how this rule would be applied to foreign companies which do not fall within this category.

Non-TRE which has an "establishment or place" in the PRC shall pay CIT on the income that is derived by such "establishment or place" in the PRC from sources inside the PRC as well as on the income that, although derived from sources outside the PRC, is effectively connected with such "establishment or place" in the PRC. Under the PRC CIT Law and its implementation rules, income derived from the PRC by a non-TRE which has no establishment or place in the PRC should be subject to withholding income tax at 10%, unless being otherwise reduced or exempted by an applicable double tax treaty.

The Manager and the Trustee intend to manage and operate the Fund and the Sub-Fund in such a manner that the Fund and the Sub-Fund would not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with an establishment or place of business in the PRC for CIT purposes. As such, it is expected that the Fund and the Sub-Fund should not be subject to CIT at 25% on an assessment basis. However, there is no assurance that such objective will be achieved.

### ***PRC tax arising from indirect equity disposal of PRC taxable properties***

The STA issued the STA Announcement [2015] No. 7 (“**Announcement 7**”) on 3 February 2015, but also applies to transactions that took place before that date but which are still open or have not yet been assessed by the Chinese tax authorities. Announcement 7 applies to an indirect disposal of an equity interest in PRC resident entities, assets of a PRC establishment or place of business and immovable properties in the PRC. Further, Announcement 7 clarifies that targeted transactions include any transaction involving the offshore transfer of equity or other similar (equity-like) interest in the foreign resident enterprise which results in the same or similar transactional outcome as a direct transfer of the Chinese taxable property.

Pursuant to Announcement 7, the Chinese tax authorities may invoke PRC's general anti-avoidance rules (“GAAR”) to disregard the existence of the offshore holding company if the organizational structure serves no reasonable commercial purpose and the intention is to avoid tax obligations in the PRC. The Fund or vehicles through which it invests may be required to file tax returns and pay 10% WHT on gains for such indirect disposal of the PRC investee companies to the PRC tax authorities.

### ***Tax obligations of the Unitholders***

**Individual Income Tax:** Non-PRC national individual Unitholders should not be subject to Individual Income Tax (“IIT”) as a result of their investment in the Sub-Fund. There should be no PRC withholding taxes applicable to investment distributions from or gains realised on disposal of Units in the Sub-Fund as such distributions and gains should not be considered to be PRC-sourced (because it is expected that the Sub-Fund will not be operated as a tax resident enterprise of the PRC).

Individual Unitholders who are domiciled in the PRC or non-PRC national individual Unitholders who have resided in the PRC for six consecutive full years will be subject to IIT on investment distributions derived from the Sub-Fund on a receipts basis regardless of the status of the Sub-Fund. PRC tax resident Unitholders should anyhow seek their own tax advice on their tax position with regard to their investment in the Sub-Fund.

**Corporate Income Tax:** Corporate Unitholders who are considered to be non-tax resident enterprises without an establishment or place of business in the PRC should not be subject to CIT as a result of their investment in the Sub-Fund. There should also be no PRC withholding income tax applicable to investment distributions from the Sub-Fund to such Unitholders as such distributions would not be considered to be PRC-sourced (because it is expected that the Sub-Fund will not be a tax resident enterprise of the PRC).

Corporate Unitholders who are considered to be: (i) tax resident enterprises of the PRC; or (ii) non-PRC tax resident enterprises who have an establishment or place of business in the PRC (and where such establishment holds the Units in the Sub-Fund as part of its business) would likely be subject to CIT on investment distributions derived from the Sub-Fund on an accrual basis. PRC tax resident enterprise Unitholders should anyhow seek their own tax advice on their tax position with regard to their investment in the Sub-Fund.

### **FATCA**

#### ***General Information***

Sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended (“**IRS Code**”, commonly known as the Foreign Account Tax Compliance Act or “**FATCA**”) imposes a 30% withholding tax on certain payments to an FFI if that FFI is not compliant with FATCA. The Fund and/or its Sub-Funds are likely to be FFIs and thus, subject to FATCA and generally be required to enter into an agreement (an “**FFI Agreement**”) with the US Internal Revenue Service (“**US IRS**”) under which it will agree to identify its direct or indirect owners who are United States persons (“**US persons**”) and report certain information concerning such owners who are US persons to the US IRS.

Beginning on 1 July 2014, the aforementioned withholding tax applies to “withholdable payments” to FFIs. “Withholdable payments” include interest, dividends and other types of income from US sources (such as dividends paid by a US corporation). Beginning on 1 January 2019, this withholding tax is extended to the payment of gross proceeds such as the proceeds received from the sale or disposal of assets that give rise to US sourced dividend or interest payments. It is expected that certain non-US sourced payments attributable to amounts that would be subject to FATCA withholding (referred to as “foreign passthru payments”) may also be subject to FATCA withholding starting no earlier than 1 January 2019, though the definition of “foreign passthru payment” in the US Treasury Regulations is currently pending.

These FATCA withholding taxes may be imposed on payments to the Fund and/or Sub-Funds unless the Fund and/or Sub-Funds become FATCA compliant pursuant to (i) the provisions of FATCA and the relevant regulations, notices and announcements issued thereunder; and/or (ii) where the Fund and/or Sub-Funds are subject to an appropriate Intergovernmental Agreement to improve international tax compliance and to implement FATCA (“IGA”). If an IGA is in place between the US and the jurisdiction where the FFI is domiciled, the FFI will generally be able to apply simpler, less burdensome due diligence and tax information sharing requirements, with generally no FATCA tax withholding if the requirements of that IGA are satisfied.

The Hong Kong government signed an IGA with the US on 13 November 2014 for the implementation of FATCA, adopting a “Model 2” IGA arrangement. Under this “Model 2” IGA arrangement, FFIs in Hong Kong (such as the Sub-Funds) would be required to enter into an FFI Agreement with the US IRS, and register with the US IRS and comply with the terms of an FFI Agreement, as discussed above. Otherwise FFIs will be subject to a 30% withholding tax on relevant US-sourced payments and other “withholdable payments” paid to them. The Hong Kong and the US IGA established a framework of enabling relevant financial institutions in Hong Kong to seek consent for disclosure from US investors, and to report relevant tax information of such investors to the US IRS. This model of IGA will be supplemented by the operation of a tax information exchange agreement. Thus, the application of the withholding rules and the information that may be required to be reported and disclosed are subject to change.

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

### ***FATCA Registration Status***

As of the date hereof, the Sub-Funds established as at the date hereof (i.e. Taiping Investment Fund - Taiping Greater China New Momentum Equity Fund and Taiping Investment Fund - Taiping Investment Grade Bond Fund) have registered with the US IRS as reporting FFIs and have obtained global intermediary identification numbers.

### ***Impact on the Sub-Funds and Unitholders***

Unitholders will be required to furnish appropriate documentation certifying as to their US or non-US tax status, together with such additional tax information as the Manager or its agents may from time to time request.

Each Unitholder shall also be required to: (a) inform the Fund, the Sub-Funds, the Manager or its agents as soon as possible of any change in any information provided in relation to its US or non-US tax status (including any circumstances that would result in a change in the taxpayer status of such Unitholder); and (b) subject to the Unitholder's express consent, waive any and all rights of such Unitholder under any relevant law or regulation in any applicable jurisdiction that would prevent the Fund, the Sub-Funds, the Manager or its agents from meeting applicable regulatory and legal requirements.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Fund and/or the relevant Sub-Fund, or a risk of the Fund and/or the relevant Sub-Fund being subject to withholding tax under FATCA, the Fund, the Sub-Funds, the Manager or its agents may, and acting in good faith and on reasonable grounds as permitted under applicable laws and regulations (i) report the relevant information of such Unitholder to the US IRS (subject to applicable laws or regulations in Hong Kong); (ii) exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder; and/or (iii) bring legal action against such Unitholder for losses suffered by the Fund and/or the relevant Sub-Fund, if such Unitholder is certified with respect to its US tax status or fails to provide any information requested.

Nothing in this section constitutes or purports to constitute tax advice and a Unitholder should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. Investors should consult their own tax advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, investors who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer FATCA withholding tax on their investment returns.

Although the Fund and the Sub-Funds will attempt to satisfy any obligations imposed on them to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Fund and the Sub-Funds will be able to satisfy these obligations. If the Fund or any Sub-Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

### **Automatic Exchange of Financial Account Information**

The Inland Revenue (Amendment) (No.3) Ordinance 2016 (the "**Ordinance**") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Automatic Exchange of Financial Account Information in Tax Matters ("**AEOI**"). The AEOI requires financial institutions ("**FI**") in Hong Kong to collect information relating to non-Hong Kong tax residents holding accounts with the FIs, and report such information to the Hong Kong Inland Revenue Department ("**IRD**"). The information will be further exchanged with the jurisdiction(s) in which that account holder is a tax resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a Competent Authority

Agreement (“CAA”); however, the Fund, the Sub-Funds and/or their agents may further collect information relating to residents of other jurisdictions.

The Fund and the Sub-Funds are required to comply with the requirements of AEOI as implemented by Hong Kong, which means that the Fund, each Sub-Fund and/or its agents shall collect and provide to the Hong Kong Inland Revenue Department (“IRD”) tax information relating to Unitholders and prospective investors.

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

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

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

**The foregoing is a summary of some of the important tax rules and considerations affecting the Unitholders, the Fund and/or the Sub-Funds and the Fund and/or the Sub-Funds’ proposed operations and does not purport to be a complete analysis of all relevant tax rules and considerations, nor does it purport to be a comprehensive coverage of all potential tax risks inherent in purchasing or holding Units in the Fund and/or the Sub-Funds. Prospective investors in the Fund and/or the Sub-Funds are urged to consult their own tax advisers on the tax consequences to them of acquiring, holding, realising, transferring or redeeming Units in the Fund and/or the Sub-Funds under the relevant laws of the jurisdictions to which they are subject, including any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to Unitholders will vary with the law and practice of the Unitholders’ country of citizenship, residence, domicile or incorporation and their personal circumstances.**

## **FINANCIAL REPORTS**

The Fund's and each Sub-Fund's financial year end is on the Accounting Date in each year. The audited annual report of the Fund should also cover the following:

- (i) the auditor's opinion as to whether the financial reports prepared for the relevant Accounting Period have been properly prepared in accordance with the relevant provisions of the Trust Deed and the Code;
- (ii) the auditor's opinion as to whether a true and fair view is given of the disposition of the Fund and of the transactions of the Fund as at the end of the relevant Accounting Period;
- (iii) the fact that, in the auditor's opinion, proper books and records have not been kept by the Fund and/or the financial reports prepared are not in agreement with the Fund's books and records (if applicable);
- (iv) the fact that the auditor has failed to obtain all the information and explanations which, to the best of the auditor's knowledge and belief, are necessary for the purposes of the audit (if applicable); and
- (v) a description of the amount reserved on account of taxes (which may be payable by a Sub-Fund to any tax authorities (including, for the avoidance of doubt, the PRC tax authorities) in respect of a Sub-Fund's investments) from assets of the relevant Sub-Fund.

English audited annual report will be available to Unitholders as soon as possible, and in any event within four months, after the end of the financial year.

Unaudited interim reports will also be available to Unitholders within two months after 30 June in each year. Such reports contain a statement of the Net Asset Value of the Sub-Fund and of the investments comprising its portfolio.

As an alternative to the distribution of printed audited annual reports and unaudited interim reports, the Manager will notify Unitholders where the audited annual reports and unaudited interim reports (in English only) can be obtained (in printed and electronic forms) within the aforesaid time frame. Once issued, the English audited annual reports and unaudited interim reports will be available for inspection at the Manager's office free of charge during normal working hours.

To the extent the Fund's valuation policy deviates from IFRS, the Manager may make necessary adjustments in the accounts of the Fund for the accounts to be in compliance with IFRS and will include in the Fund's annual accounts a reconciliation note to reconcile values arrived at by applying the Fund's valuation rules.

## **PUBLICATION OF PRICES**

The Net Asset Value per Unit of a Sub-Fund will be published on each Dealing Day on the website <http://www.tpahk.cntaiping.com>. This website has not been reviewed by the SFC. The

prices will be expressed exclusive of any subscription fee or redemption fee which may be payable on subscription or redemption.

## **VOTING RIGHTS**

Either the Manager or the Trustee may convene meetings of Unitholders. In addition, Unitholders of 10% or more in value of the Units in issue may require a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting. If a situation gives rise to potential conflicts of interest between different classes of Unitholders, class meetings will be held in accordance with the provisions of the Trust Deed.

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an Extraordinary Resolution. At any meeting an Ordinary Resolution or an Extraordinary Resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman or by one or more Unitholders present in person or by proxy. Unless a poll is demanded, a declaration by the chairman that the resolution has been carried or carried unanimously or by a particular majority or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The quorum for passing an Extraordinary Resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue. If a quorum is not present within half an hour from the appointed meeting time, the meeting will be adjourned for not less than 15 days. In the case of an adjourned meeting of which separate notice will be given, such Unitholders as are present in person or by proxy will form a quorum. Every individual Unitholder present in person, by proxy or by representative has one vote for every Unit of which he is the holder. In the case of joint Unitholders the senior of those who tenders a vote (in person or by proxy) will be accepted and seniority is determined by the order in which the names appear on the register of Unitholders.

An Extraordinary General Meeting should be called for the following purposes:

- (i) to modify, alter or add to the Trust Deed;
- (ii) to terminate the Fund in accordance with the Trust Deed;
- (iii) to increase the maximum fees paid to the Manager and/or the Trustee; or
- (iv) to impose other types of fees.

The Trustee, the Manager and their connected persons are prohibited from voting their beneficially owned Units at, or counted in the quorum for, a meeting at which they have a material interest in the business to be contracted by the Fund and/or the Sub-Fund.

## **TRANSFER OF UNITS**

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



deemed to remain the holder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of such Units.

## **TRUST DEED**

The Fund was established by a Trust Deed dated 17 March 2009 made between Hai Tong Asset Management (HK) Limited as the manager and HSBC Trustee (Cayman) Limited as the trustee and as amended from time to time. With effect from 15 December 2014, Hai Tong Asset Management (HK) Limited retired from its role as manager and has been replaced by Taiping Assets Management (HK) Company Limited as the Manager. With effect from 30 April 2016, HSBC Trustee (Cayman) Limited retired from its role as trustee and has been replaced by HSBC Institutional Trust Services (Asia) Limited as the trustee. With effect from 1 January 2017, the Trustee was appointed as trustee in place of HSBC Institutional Trust Services (Asia) Limited.

The Trust Deed contains provisions for:

- the indemnification of the Manager and the Trustee in certain circumstances in the absence of any fraud, bad faith, negligence, willful default or breach of duty or trust on the part of the Manager or the Trustee (as the case may be);
- the exculpation of liability of the Manager and the Trustee in certain circumstances, and generally for anything done in good faith under the provisions of the Trust Deed in the absence of fraud, bad faith, willful default or negligence on the part of the Manager or the Trustee (as the case may be); and
- the circumstances as to when the removal and retirement of the Trustee and Manager may be effected.

Although the Trust Deed contains provisions for the indemnification of the Manager and the Trustee in certain circumstances, nothing in the Trust Deed may provide that the Trustee, the Manager and the directors of the Trustee and the Manager can be exempted from any liability to Unitholders imposed under the laws of Hong Kong for breaches of trust through fraud or negligence, nor may they be indemnified against such liability by Unitholders or at Unitholders' expense.

Unitholders and applicants are advised to consult the terms of the Trust Deed. If there is a conflict between any of the provisions of this Explanatory Memorandum and the Trust Deed, the provisions of the Trust Deed will prevail.

Copies of the current Trust Deed may be obtained from the Manager at a cost of HK\$300 each and may be inspected during normal working hours at the offices of the Manager free of charge.

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

### **The Trustee**

Subject to the prior approval of the SFC:

1. The Trustee may retire voluntarily if a new trustee has been appointed by the Manager and adequate arrangements have been made for the new trustee to assume the

responsibility for administration of the Fund and for the Trustee's interest in the Fund (if any) to be transferred to the new trustee; and

2. The Manager may remove the Trustee by giving not less than 3 months' prior notice in writing to the Trustee and appoint any other qualified company to act as the trustee of the Fund.

### **The Manager**

Subject to the prior approval of the SFC, the Manager may, by written notice, be subject to removal by the Trustee if:

1. the Manager commences liquidation or has gone into receivership; or
2. the Trustee gives not less than 6 months' prior written notice to the Manager stating that for good and sufficient reason a change of the Manager is in the interest of the Unitholders; or
3. the Unitholders representing at least 50% in value of the Units outstanding (excluding those held or deemed to be held by the Manager) deliver to the Trustee a written request to dismiss the Manager and the Trustee provides not less than 6 months' prior written notice to the Manager.

If the SFC withdraws the authorisation of the Manager to act as investment manager of the Fund, the Manager's appointment under the Fund will terminate as at the date on which the SFC's withdrawal becomes effective.

Apart from the above, if the Manager considers that it is in the best interests of investors, it may also retire voluntarily in favour of some other qualified company approved by the Trustee and the SFC.

### **MODIFICATION OF TRUST DEED**

Subject to the prior approval of the SFC, the Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification:

- (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent, the Trustee, the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Fund; or
- (ii) is necessary or desirable in order to comply with any fiscal or other statutory or regulatory or official requirements; or
- (iii) is made to correct a manifest error.

Unitholders must approve by Extraordinary Resolution all other modifications to the Trust Deed involving any material changes.

For the avoidance of doubt, and notwithstanding the above, the approval of an Extraordinary Resolution is not required when a new Sub-Fund is established by the Trustee and the Manager.

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

The Fund will continue for a period of 80 years from the date of the Trust Deed or until it is terminated in one of the ways set out below.

The Trustee may terminate the Fund by notice in writing to the Manager in the following events, namely if:

- (a) within 30 days of the Manager leaving office and no new manager is appointed; or
- (b) if in the opinion of the Trustee, the Manager is incapable of performing or fails to perform its duties satisfactorily; or
- (c) if the Manager goes into liquidation (except a voluntary liquidation for the purposes of reconstruction or amalgamation when so approved in writing by the Trustee) or if a receiver is appointed over any of the assets of the Manager and not discharged within 60 days; or
- (d) if the Trustee desires to retire and the Manager fails to find a new trustee qualified to act as trustee in the place of the retiring Trustee within 3 months from the date of retirement of the Trustee; or
- (e) if it becomes illegal or, in the opinion of the Trustee, impracticable or inadvisable to continue the Fund.

The Trustee may also terminate the Fund if any law is passed that makes it illegal, or in the opinion of the Trustee, impracticable or inadvisable to continue the Fund.

The Manager may terminate the Fund or any Sub-Fund:

- (a) if, in relation to the Fund, the Net Asset Value of the Fund is less than HK\$39,000,000 or the equivalent in US dollars or other currencies over 12 consecutive calendar months, and Unitholders of the Fund pass an Extraordinary Resolution approving the termination of the Fund in such circumstances; or
- (b) if, in relation to any Sub-Fund, the average Net Asset Value of the Units outstanding in respect of such Sub-Fund is less than HK\$39,000,000 or the equivalent in US dollars or other currencies over 12 consecutive calendar months; or
- (c) if any law is passed that makes it illegal or, in the opinion of the Manager, impracticable or inadvisable, in consultation with the SFC to continue the Fund or such Sub-Fund; or
- (d) if the Fund and/or any Sub-Fund (as the case may be) ceases to be authorised or otherwise officially approved by the SFC.

Not less than three months' notice of any termination will be given to the Trustee and the Unitholders. Such notice will be submitted to the SFC for prior approval and will contain the

reasons for the termination, alternatives available to Unitholders and the expected costs involved.

Further, at any time the Unitholders of any Sub-Fund may authorise termination of such Sub-Fund by Extraordinary Resolution.

Upon termination of a Sub-Fund, the Manager shall redeem all the assets then comprised in the Sub-Fund or such part of the Sub-Fund as the Manager thinks fit. The Trustee shall from time to time, in relation to such Sub-Fund, distribute to the Unitholders of the Sub-Fund in proportion to their respective holdings of such Units, all net cash proceeds derived from the redemption of Units in the Sub-Fund in an orderly manner, in accordance with the provisions set out in the Trust Deed.

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

#### **CERTIFICATION FOR COMPLIANCE WITH FATCA OR OTHER APPLICABLE LAWS**

Each investor (i) shall be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Fund or a Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Fund or the relevant Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under the IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including under AEOI), including reporting obligations that may be imposed by future legislation.

For the purposes herein, “**AEOI**” means:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard (the “**CRS**”) and any associated guidance;
- (c) any intergovernmental agreement, treaty, regulation, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in sub-clauses (a) and (b) above; and

- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding sub-clauses (a) to (c) above.

### **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Trust Deed and the latest annual and interim reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager at Unit 1-2, 19th Floor, China Taiping Finance Centre, No. 18 King Wah Road, Hong Kong. Copies of the Trust Deed can be purchased from the Manager on payment of a reasonable fee.

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

As part of the Trustee and the Manager's responsibility for the prevention of money laundering, the Trustee and/or the Manager (including its affiliates, subsidiaries or associates) require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where:

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

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

### **CONFLICTS OF INTEREST**

The Manager and the Trustee may from time to time act as trustee, administrator, registrar, manager, custodian, investment manager or investment adviser, representative or otherwise as may be required from time to time in relation to, or be otherwise involved in or with, other funds and clients that have similar investment objectives to those of any Sub-Fund. It is, therefore, possible that any of them may, in the course of business, have potential conflicts of interest with the Fund. Each will, at all times, have regard in such event to its obligations to the Fund and will endeavour to ensure that such conflicts are resolved fairly. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

### **FACSIMILE OR ELECTRONIC INSTRUCTIONS**

If investors choose to send the instructions for an application or a request for subscription, redemption or conversion by facsimile or such other electronic means, investors may be

required first to provide to the Manager and the Registrar an original indemnity relating to fax or transmission via such other electronic means in the application or request.

The Manager or the Registrar will generally act on faxed or any other electronic instructions for an application or a request for subscription, redemption or conversion but may require signed original instructions. However, the Manager or the Registrar may refuse to act on faxed or any other electronic instructions until the written instructions are received. The Manager or the Registrar may, in its absolute discretion, determine whether or not original instructions are also required in respect of any subsequent applications or requests for subscription, redemption or conversion sent by facsimile or any other electronic means by an investor.

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

## **PERSONAL DATA**

Personal data provided by the Unitholder on the application form, and details of transactions or dealings between Unitholder and the Fund will be used, stored, disclosed and transferred (in and outside Hong Kong) to such persons as the Fund considers necessary for any purpose in connection with the services the Fund may provide to a Unitholder and/or in connection with verifying the identity of the Unitholder.

A Unitholder has the right to request access to and correction of any personal data.

## SCHEDULE 1 - INVESTMENT AND BORROWING RESTRICTIONS

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

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

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

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

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

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

- (b) subject to sub-paragraphs 1(a) and 4.4(c) of this Schedule 1, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following exceeding 20% of the latest available Net Asset Value of the relevant Sub-Fund:
  - (i) investments in securities issued by those entities;
  - (ii) exposure to those entities through underlying assets of financial derivative instruments; and
  - (iii) net counterparty exposure to those entities arising from transactions of over-the-counter financial derivative instruments.

For the purposes of sub-paragraphs 1(b) and 1(c) of this Schedule 1, "entities within the same group" means entities which are included in the same group for the

purposes of consolidated financial statements prepared in accordance with internationally recognized accounting standards.

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

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

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

- (d) the Sub-Fund's holding of any ordinary shares (when aggregated with all other Sub-Fund's holdings of such ordinary shares) exceeding 10% of any ordinary shares issued by any single entity.
- (e) the value of the Sub-Fund's investment in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a Market, exceeding 15% of the latest available Net Asset Value of such Sub-Fund.
- (f) the value of the Sub-Fund's total holding of Government and other public securities of the same issue exceeding 30% of the latest available Net Asset Value of such Sub-Fund (save that the Sub-Fund may invest all of its assets in Government and other public securities in at least six different issues). For the avoidance of doubt, Government and other public securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise.
- (g) (i) the value of the Sub-Fund's investment in units or shares in other collective investment schemes (namely "**underlying schemes**") which are non-eligible schemes (the list of "eligible schemes" is as specified by the SFC from time to



time) and not authorized by the SFC in aggregate exceeding 10% of its latest available Net Asset Value; and

(ii) the value of the Sub-Fund's investment in units or shares in each underlying scheme which is either an eligible scheme (the list of "eligible schemes" is as specified by the SFC from time to time) or a scheme authorized by the SFC exceeding 30% of its latest available Net Asset Value unless the underlying scheme is authorized by the SFC, and the name and key investment information of the underlying scheme are disclosed in the Offering Document of that Sub-Fund,

provided that:

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

For the avoidance of doubt:

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

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

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

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

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

- (a) invest in physical commodities unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including any options or rights but excluding shares in real estate companies and interests in REITs);
- (c) make short sales unless (i) the liability of the relevant Sub-Fund to deliver securities does not exceed 10% of its latest available Net Asset Value; (ii) the security which is to be sold short is actively traded on a Market where short selling activity is permitted; and (iii) the short sales are carried out in accordance with all applicable laws and regulations;
- (d) carry out any naked or uncovered short sale of securities;
- (e) subject to sub-paragraph 1(e) of this Schedule 1, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person. For the avoidance of doubt, reverse repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not subject to the limitations in this sub-paragraph 2(e);
- (f) acquire any asset or engage in any transaction which involves the assumption of any liability by the relevant Sub-Fund which is unlimited. For the avoidance of doubt, the liability of Unitholders of a Sub-Fund is limited to their investments in that Sub-Fund;

- (g) invest in any security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5%, or collectively they own more than 5%, of the total nominal amount of all the issued securities of that class;
- (h) invest in any security where a call is to be made for any sum unpaid on that security, unless the call could be met in full out of cash or near cash from the Sub-Fund's portfolio whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in financial derivative instruments for the purposes of sub-paragraphs 4.5 and 4.6 of this Schedule 1;
- (i) enter into any underwriting or sub-underwriting contracts without the prior consent of the Trustee and unless the Manager provides in writing that all commissions and fees payable and investments acquired pursuant to such contracts form part of the Sub-Fund's assets.

### 3. **Feeder funds**

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

- (a) such underlying scheme ("**master fund**") must be authorized by the SFC;
- (b) no increase in the overall total of initial charges, redemption charges, management fees, or any other costs and charges payable to the Manager or any of its connected persons borne by the Unitholders or by the feeder fund may result, if the master fund in which the feeder fund invests is managed by the Manager or by a connected person of the Manager;
- (c) notwithstanding proviso (C) to sub-paragraph 1(g) of this Schedule 1, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in sub-paragraphs 1(g)(i) and (ii) and proviso (A), (B) and (C) to sub-paragraph 1(g) of this Schedule 1.

### 4. **Use of financial derivative instruments**

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

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss or risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of

risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

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

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

4.2 A Sub-Fund may also acquire financial derivative instruments for non-hedging purposes (“**investment purposes**”) subject to the limit that such Sub-Fund’s net exposure relating to these financial derivative instruments (“**net derivative exposure**”) does not exceed 50% of its latest available Net Asset Value provided that such limit may be exceeded in such circumstances as permitted under the Code, handbook, code and/or guideline issued by the SFC from time to time or permitted by the SFC from time to time. For the avoidance of doubt, financial derivative instruments acquired for hedging purposes under sub-paragraph 4.1 of this Schedule 1 will not be counted towards the 50% limit referred to in this sub-paragraph 4.2 so long as there is no residual derivative exposure arising from such hedging arrangement. Net derivative exposure shall be calculated in accordance with the Code and the requirements and guidance issued by the SFC which may be updated from time to time.

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

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

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

- (c) subject to sub-paragraphs 1(a) and (b) of this Schedule 1, a Sub-Fund's net counterparty exposure to a single entity arising from transactions of over-the-counter financial derivative instruments may not exceed 10% of its latest available Net Asset Value provided that the exposure of the Sub-Fund to a counterparty of over-the-counter financial derivative instruments may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the financial derivative instruments is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) (as the case may be) independent of the issuer of the financial derivative instruments through measures such as the establishment of a valuation committee or engagement of third party service. The financial derivative instruments can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Sub-Fund's initiative. Further, the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the financial derivative instruments on a regular basis.

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

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

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

delivery obligation provided further that the Sub-Fund shall apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

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

## **5. Securities financing transactions**

- 5.1 A Sub-Fund may engage in securities financing transactions, provided that they are in the best interests of Unitholders of such Sub-Fund to do so and the associated risks have been properly mitigated and addressed, and provided further that the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

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

- 5.3 All the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions shall be returned to the Sub-Fund.

- 5.4 A Sub-Fund shall only enter into a securities financing transaction if the terms of such securities financing transaction include the power for the Sub-Fund at any time to recall the securities or the full amount of cash (as the case may be) subject to the securities financing transaction or terminate the securities financing transaction(s) into which it has entered.

## **6. Collateral**

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

- (a) Liquidity – the collateral is sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- (b) Valuation – the collateral is marked-to-market daily by using independent pricing sources;
- (c) Credit quality – the collateral is of high credit quality provided that, in the event the credit quality of the collateral or the issuer of the asset being used

as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral, such collateral shall be replaced immediately;

- (d) Haircut – the collateral is subject to a prudent haircut policy;
- (e) Diversification – the collateral is appropriately diversified so as to avoid concentrated exposure to any single entity and/or entities within the same group. A Sub-Fund’s exposure to the issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in sub-paragraphs 1(a), 1(b), 1(c), 1(f), 1(g)(i) and (ii) and provisos (A) to (C) of sub-paragraph 1(g) and sub-paragraph 2(b) of this Schedule 1;
- (f) Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions in such a way that would undermine the effectiveness of the collateral. For this purpose, securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;
- (g) Management of operational and legal risks – the Manager has appropriate systems, operational capabilities and legal expertise for proper collateral management;
- (h) Independent custody – the collateral is held by the Trustee or by duly appointed nominee, agent or delegate;
- (i) Enforceability – the collateral is readily accessible or enforceable by the Trustee without further recourse to the issuer of the financial derivative instruments, or the counterparty of the securities financing transactions;
- (j) Re-investment of collateral – any re-investment of collateral received for the account of the relevant Sub-Fund shall be subject to the following requirements:
  - (i) cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorized under 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. For this purpose, money market instruments refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account;

- (ii) non-cash collateral received may not be sold, re-invested or pledged;
- (iii) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in sub-paragraphs 7(b) and 7(j) of this Schedule 1;
- (iv) cash collateral received is not allowed to be further engaged in any securities financing transactions;
- (v) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions;
- (k) the collateral is free of prior encumbrances; and
- (l) the collateral generally does not include (i) structured products whose payouts rely on embedded financial derivatives or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitized products; or (iv) unlisted collective investment schemes.

## 7. **Money Market Funds**

In the exercise of its investment powers in relation to a Sub-Fund which is a money market fund (“**Money Market Fund**”) authorised by the SFC under 8.2 of the Code, the Manager shall ensure that the core requirements as set out in paragraphs 1, 2, 4, 5, 6, 8, 9.1 and 9.2 of this Schedule 1 shall apply with the following modifications, exemptions or additional requirements:-

- (a) subject to the provisions set out below, a Money Market Fund may only invest in short-term deposits and high quality money market instruments (i.e. securities normally dealt in on the money markets including government bills, certificates of deposit, commercial papers, short-term notes, bankers’ acceptances, asset-backed securities such as asset-backed commercial papers), and money market funds that are authorised by the SFC 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;
- (b) a Money Market Fund shall maintain a portfolio with weighted average maturity not exceeding 60 days and a weighted average life not exceeding 120 days and must not purchase an instrument with a remaining maturity of more than 397 days (or two years in the case of Government and other public securities). For the purposes herein;
  - (i) “**weighted average maturity**” is a measure of the average length of time to maturity of all the underlying securities in a Money Market Fund weighted to reflect the relative holdings in each instrument; and is used to measure the sensitivity of the Money Market Fund to changing money market interest rates; and



- (ii) “**weighted average life**” is the weighted average of the remaining life of each security held in a Money Market Fund; and is used to measure the credit risk, as well as the liquidity risk,

provided that the use of interest rate resets in variable-notes or variable-rate notes generally should not be permitted to shorten the maturity of a security for the purpose of calculating weighted average life, but may be permitted for the purpose of calculating weighted average maturity;

- (c) notwithstanding sub-paragraphs 1(a) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's holding of instruments issued by a single entity, together with any deposits held with that same issuer may not exceed 10% of the latest available Net Asset Value of such Money Market Fund except:-
  - (i) the value of a Money Market Fund's holding of instruments and deposits issued by a single entity may be increased to 25% of the latest available Net Asset Value of such Money Market Fund if the entity is a substantial financial institution, provided that the total value of such holding does not exceed 10% of the entity's share capital and non-distributable capital reserves; or
  - (ii) up to 30% of a Money Market Fund's latest available Net Asset Value may be invested in Government and other public securities of the same issue; or
  - (iii) in respect of any deposit of less than US\$1,000,000 or its equivalent in the Base Currency of the relevant Money Market Fund where such Money Market Fund cannot otherwise diversify as a result of its size;
- (d) notwithstanding sub-paragraphs 1(b) and 1(c) of this Schedule 1, the aggregate value of a Money Market Fund's investments in entities within the same group through instruments and deposits may not exceed 20% of its latest available Net Asset Value provided that:
  - (i) the aforesaid limit will not apply in respect of cash deposit of less than US\$ 1,000,000 or its equivalent in the Base Currency of such Money Market Fund, where it cannot otherwise diversify as a result of its size;
  - (ii) where the entity is a substantial financial institution and the total amount does not exceed 10% of the entity's share capital and non-distributable capital reserves, the limit may be increased to 25%;
- (e) the value of a Money Market Fund's holding of money market funds that are 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 may not in aggregate exceed 10% of its latest available Net Asset Value;

- (f) the value of a Money Market Fund's holding of investments in the form of asset-backed securities may not exceed 15% of its latest available Net Asset Value;
- (g) subject to paragraphs 5 and 6 of this Schedule 1, a Money Market Fund may engage in sale and repurchase transactions, and reverse repurchase transactions in compliance with the following additional requirements:
  - (i) the amount of cash received by the Money Market Fund under sale and repurchase transactions may not in aggregate exceed 10% of its latest available Net Asset Value;
  - (ii) the aggregate amount of cash provided to the same counterparty in reverse repurchase agreements may not exceed 15% of the latest available Net Asset Value of the Money Market Fund;
  - (iii) collateral received may only be cash, high quality money market instruments and may also include, in the case of reverse repurchase transactions, government securities receiving a favourable assessment on credit quality; and
  - (iv) the holding of collateral, together with other investments of the Money Market Fund, must not contravene the investment limitations and requirements set out in the other provisions of this paragraph 7 of this Schedule 1;
- (h) a Money Market Fund may use financial derivative instruments for hedging purposes only;
- (i) the currency risk of an Money Market Fund should be appropriately managed and any material currency risk that arises from investments of the Money Market Fund that are not denominated in its Base Currency shall be appropriately hedged;
- (j) a Money Market Fund must hold at least 7.5% of its latest available Net Asset Value in daily liquid assets and at least 15% of its latest available Net Asset Value in weekly liquid assets. For the purposes herein:
  - (i) daily liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within one Business Day; and (iii) amount receivable and due unconditionally within one Business Day on pending sales of portfolio securities; and
  - (ii) weekly liquid assets refers to (i) cash; (ii) instruments or securities convertible into cash (whether by maturity or through exercise of a demand feature) within five Business Days; and (iii) amount receivable and due unconditionally within five Business Days on pending sales of portfolio securities.

## **8. Borrowing and leverage**

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

### Cash borrowing

- 8.1 No borrowing shall be made in respect of a Sub-Fund which would result in the principal amount for the time being of all borrowings made for the account of the relevant Sub-Fund exceeding an amount equal to 10% of the latest available Net Asset Value of the relevant Sub-Fund provided always that back-to-back loans do not count as borrowing. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in sub-paragraphs 5.1 to 5.4 of this Schedule 1 are not borrowings for the purpose of, and are not subject to the limitations in this sub-paragraph 8.1.
- 8.2 Notwithstanding sub-paragraph 8.1 of this Schedule 1, a Money Market Fund may borrow only on a temporary basis for the purposes of meeting redemption requests or defraying operating expenses.

### Leverage from the use of financial derivative instruments

- 8.3 A Sub-Fund may also be leveraged through the use of financial derivative instruments and its expected maximum level of leverage through the use of financial derivative instruments (i.e. expected maximum net derivative exposure) is set out in the relevant Appendix.
- 8.4 In calculating the net derivative exposure, derivatives acquired for investment purposes that would generate incremental leverage at the portfolio level of the relevant Sub-Fund are converted into their equivalent positions in their underlying assets. The net derivative exposure is calculated in accordance with the requirements and guidance by the SFC which may be updated from time to time.
- 8.5 The actual level of leverage may be higher than such expected level in exceptional circumstances, for example when there are sudden movements in markets and/or investment prices.

## **9. Name of Sub-Fund**

- 9.1 If the name of a Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund must, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.
- 9.2 The name of a Money Market Fund must not appear to draw a parallel between the Money Market Fund and the placement of cash on deposit.

## APPENDIX A

### TAIPING GREATER CHINA NEW MOMENTUM EQUITY FUND

#### DEFINITIONS

Save as provided below, the defined terms used in the Explanatory Memorandum have the same meaning in this Appendix A. In addition, the following expressions shall have the following meanings in this Appendix A:

“Base Currency”	Hong Kong Dollar or HK\$
“Dealing Day”	each Business Day
“Dealing Deadline”	4:00 p.m. (Hong Kong time) on the relevant Dealing Day
“Greater China”	includes the PRC, the Special Administrative Region of Hong Kong, the Special Administrative Region of Macau and Taiwan
“Issue Price”	HK\$100 per Unit net of subscription fee
“Sub-Fund”	Taiping Greater China New Momentum Equity Fund
“Valuation Day”	each Dealing Day

#### INTRODUCTION

This Appendix contained in this Explanatory Memorandum relates solely to Taiping Greater China New Momentum Equity Fund.

#### INVESTMENT OBJECTIVE AND STRATEGY

##### Investment Objective

Taiping Greater China New Momentum Equity Fund is an equity fund which seeks to provide investors with medium to long term capital appreciation over time.

##### Investment Strategy

The Manager intends to make investments (at least 70% of the Sub-Fund’s NAV) through a portfolio consisting of listed equity securities (which may include (but are not limited to) shares listed on the stock exchanges of Mainland China, Hong Kong and other China related stocks\*\*) of companies that derive or are expected to derive a significant portion of their revenues from goods produced or sold, investments made or services performed in Greater China (which includes the PRC, the Special Administrative Regions of Hong Kong and Macau), in particular the listed equity securities of companies in Hong Kong that are expected to achieve stable and high dividend returns. The Manager believes that the value of these companies should increase through their participation in the economic growth of the Greater China region.

The Sub-Fund may invest up to 50% of its NAV in China A-Shares through Stock Connect or via Qualified Investors (“QI”) status. The Sub-Fund may also invest up to 30% of its NAV in ChiNext market and STAR Board in total.

The Sub-Fund may also invest less than 30% of its NAV in listed equity securities of companies which may have no connection with the Greater China region. Such equity securities are listed on exchanges worldwide including but not limited to the United States.

The Sub-Fund will be managed based on a value-oriented investment strategy, which means that the Manager will invest in assets which are considered to be undervalued, compared to their intrinsic value. The Sub-Fund will have no particular focus on market capitalisation, industry or sector.

The Sub-Fund may also invest in financial derivative instruments for hedging purposes only but not for investment purposes, subject to the investment restrictions set out in this Explanatory Memorandum. The Sub-Fund’s net derivative exposure may be up to 50% of the Sub-Fund’s latest available Net Asset Value.

The Manager currently does not intend to enter into any securities financing transactions or other similar over-the-counter transactions in respect of the Sub-Fund. The Sub-Fund will not receive any collateral.

### ***Investment Portfolio***

The investment portfolio of the Sub-Fund may include listed equity securities of companies described above. In addition, the Sub-Fund may invest in these companies through Global Depository Receipts (“GDRs”), American Depository Receipts (“ADRs”), Chinese Depository Receipts, equity linked notes, or indirectly through other derivative instruments or may invest in derivative instruments for hedging purposes only, subject to the investment restrictions set out in this Explanatory Memorandum.

<b>Type of instruments</b>	<b>Fund’s percentage allocation*</b>
Listed equity securities are expected to derive a significant portion of their revenues from goods produced or sold, investments made or services performed in Greater China (which includes the PRC, the Special Administrative Regions of Hong Kong and Macau)	70%-100%
Equities listed on Hong Kong Stock Exchanges	0%-100%
Equities listed on Stock Exchanges in Mainland China (through Stock Connect)	0%-50%
Other China Related Stocks **	0%-50%
Listed equity securities of companies which may have no connection with the Greater China region	0%-less than 30%

\* Currently, the Manager’s policy is to allocate assets in the Sub-Fund in accordance with the table set out above. In light of changes in market conditions, the Manager has absolute discretion to vary the percentage allocation of assets in the Sub-Fund to be invested into different securities market. The latest percentage allocation of the assets in the Sub-Fund will be notified to Unitholders and potential investors by way of publication on the Manager’s website (<http://www.tpahk.cntaiping.com>) as soon as

practicable. Please note that the website does not form part of this Explanatory Memorandum and has not been reviewed by the SFC.

\*\* “**Other China Related Stocks**” refer to the shares of companies which are not domiciled in Greater China, but have direct and significant operations in Greater China.

### ***Geographical Concentration***

The Sub-Fund will focus primarily on investment into the Greater China region and at least 70% of the Sub-Fund’s NAV will be invested into Greater China-related financial instruments and companies. However, this will not preclude the Sub-Fund from investing in other markets where opportunities can be identified.

Subject to the investment restrictions set out in the Explanatory Memorandum, the Manager may apply any investment strategy (including hedging, leveraging, and other strategies) it deems appropriate under the prevailing economic and market conditions in order to achieve the investment objective and strategy of the Sub-Fund.

In addition, the Manager may hold cash, deposits, short-term papers such as treasury bills, certificates of deposit, bankers’ acceptances, short-term commercial papers and other fixed income instruments for the account of the Sub-Fund. In times of extreme volatility of the markets or during severe adverse market conditions, the Manager may hold a substantial portion of the Sub-Fund’s assets in cash or cash equivalents, or invest in short-term money market instruments to preserve the value of the assets in the investment portfolio of the Sub-Fund.

### **Stock Connect**

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing linked program developed by Hong Kong Exchanges and Clearing Limited (“**HKEx**”), Shanghai Stock Exchange (“**SSE**”) and China Securities Depository and Clearing Corporation Limited (“**ChinaClear**”) and the Shenzhen-Hong Kong Stock Connect is a securities trading and clearing links programme developed by the HKEx, the Shenzhen Stock Exchange (“**SZSE**”) and ChinaClear. The aim of both programs are to achieve mutual stock market access between Mainland China and Hong Kong.

Both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect comprise of a Northbound Trading Link (for investment in Mainland Chinese shares) and a Southbound Trading Link (for investment in Hong Kong shares). Under the Northbound Trading Link, investors, through their Hong Kong brokers and a securities trading service company established by Stock Exchange of Hong Kong Limited (“**SEHK**”), may be able to place orders to trade eligible shares listed on SSE and SZSE by routing orders to SSE and/or SZSE. Under the Southbound Trading Link, eligible investors, may be able to place orders to trade eligible shares listed on SEHK by routing orders to SEHK.

### ***Eligible Securities***

Hong Kong and overseas investors will be able to trade certain stocks listed on the SSE market (i.e. “**SSE Securities**”). These include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed China A-Shares that are not included as

constituent stocks of the relevant indices but which have corresponding H-Shares listed on SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are under risk alert.

Under the Shenzhen-Hong Kong Stock Connect, Hong Kong and overseas investors will be able to trade certain stocks listed on the SZSE market (i.e. “**SZSE Securities**”). These include all the constituent stocks of the SZSE Component Index, SZSE Small/Mid Cap Innovation Index which have a market capitalization of RMB 6 billion or above and all SZSE-listed shares of companies which have issued both China A-Shares and H Shares, except the following:

- (a) SZSE-listed shares which are not traded in RMB; and
- (b) SZSE-listed shares which are under risk alert or under delisting arrangement.

At the initial stage of the Shenzhen-Hong Kong Stock Connect, investors eligible to trade shares that are listed on the ChiNext board of SZSE under the Northbound Shenzhen Trading Link will be limited to institutional professional investors as defined in the relevant Hong Kong rules and regulations.

Eligible SSE-listed and SZSE-listed exchange traded funds are included as eligible securities for Northbound trading under Stock Connect starting from 4 July 2022. It is expected that the list of eligible securities will be subject to review.

### ***Trading Day***

Investors (including the Sub-Fund) will only be allowed to trade on the SSE market and the SZSE market on days where both the Mainland China and Hong Kong stock markets are open for trading.

### ***Trading Quota***

Trading under Stock Connect will be subject to rules and regulations issued from time to time.

Trading under Stock Connect is subject to a daily quota (“**Daily Quota**”). Northbound Shanghai Trading Link, Northbound Shenzhen Trading Link, Southbound Shanghai Trading Link and Southbound Shenzhen Trading Link will be subject to a separate set of Daily Quota. The Daily Quota limits the maximum net buy value of cross-boundary trades under Stock Connect each day. The quotas do not belong to any of the Sub-Funds and are utilized on a first-come first-served basis.

### ***Settlement and Custody***

The Hong Kong Securities Clearing Company Limited (“**HKSCC**”), also a wholly-owned subsidiary of HKEx, and ChinaClear will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by their respective market participants and investors.

The SSE Securities and SZSE Securities traded through Stock Connect are issued in scripless form, so investors will not hold any SSE Securities and SZSE Securities in physical form.

Hong Kong and overseas investors can only hold SSE and SZSE Securities through their brokers/custodians. Their ownership of such is reflected in their brokers/custodians' own records such as client statements.

### ***Corporate Actions and Shareholders' Meetings***

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities and SZSE Securities held in its omnibus stock account in ChinaClear, ChinaClear as the share registrar for SSE and SZSE listed companies will still treat HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities and SZSE Securities.

HKSCC will monitor the corporate actions affecting SSE Securities and SZSE Securities and keep the relevant brokers or custodians participating in CCASS (the Central Clearing and Settlement System operated by HKSCC for the clearing securities listed or traded on SEHK) ("**CCASS participants**") informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

SSE-/SZSE-listed companies usually announce their annual general meeting / extraordinary general meeting information about two to three weeks before the meeting date. A poll is called on all resolutions for all votes. HKSCC will advise CCASS participants of all general meeting details such as meeting date, time, venue and the number of resolutions.

### ***Foreign Shareholding Restrictions***

Pursuant to relevant rules and regulations, when holding China A-Shares through Stock Connect, Hong Kong and overseas investors are subject to the following shareholding restrictions:

- Single foreign investors' shareholding by any Hong Kong or overseas investor in a China A-Share must not exceed 10% of the total issued shares; and
- Aggregate foreign investors' shareholding by all Hong Kong and overseas investors in a China A-Share must not exceed 30% of the total issued shares.

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

The SSE, SZSE and the SEHK will issue notices or warnings as the aggregate foreign shareholding of an SSE or SZSE Security approaches 30%. Northbound Trading buying orders will be suspended once the aggregate foreign shareholding reaches 28% and will only resume when it drops to less than 26%. Northbound Trading sell orders will not be affected.

### ***Currency***



Hong Kong and overseas investors will trade and settle SSE and SZSE Securities in RMB only. Hence, the Sub-Fund will need to use its RMB funds to trade and settle SSE and SZSE Securities.

### ***Investor Compensation***

According to the Measures for the Administration of Securities Investor Protection Fund 《證券投資者保護基金管理辦法》, the functions of China Securities Investor Protection Fund (“CSIPF”, 中國投資者保護基金) include “indemnifying creditors as required by Mainland China’s relevant policies in case a securities company is subjected to compulsory regulatory measures including dissolution, closure, bankruptcy and administrative takeover by the CSRC and custodian operation” or “other functions approved by the State Council”. As far as the Sub-Fund is concerned, since they are carrying out Northbound trading through securities brokers in Hong Kong and these brokers are not brokers in Mainland China, therefore they are not protected by CSIPF in Mainland China.

Further information about the Stock Connect is available online at the website:

<http://www.hkex.com.hk/Mutual-Market/Stock-Connect> (this website has not been reviewed by the SFC)

## **EXPENSES AND CHARGES**

### **Subscription Fee**

The Manager may charge Unitholders a subscription fee of up to 5% of the total value of the Units subscribed for by the investor or Unitholder. Subject to the maximum 5%, the Manager may change the subscription fee from time to time.

The current Subscription Fee is 5% on the Issue Price of each Unit. For example, assuming that an investor subscribes for HK\$105,000.00 with Issue Price per Unit at HK\$100.00, the amount of Subscription Fee payable would be HK\$5,000.00, i.e.  $HK\$105,000.00 - HK\$105,000.00 / (1 + 5\%)$ , and the investor will subscribe for 1,000.00 Units at the Issue Price of HK\$100.00 per Unit after the deduction of the Subscription Fee.

The Manager may share its fees with any persons who distribute Units or otherwise procure subscriptions to the Sub-Fund.

### **Redemption Fee**

The Manager may charge redeeming Unitholders a redemption fee of up to 4% of the Redemption Price per Unit. Subject to the maximum 4%, the Manager may change the redemption fee from time to time.

Currently, no Redemption Fee will be charged for redemption of Units in the Sub-Fund.

### **Conversion Fee**

The Manager may charge a Unitholder wishing to convert its Units of a class into Units of another class (“New Class”) a conversion fee of up to 3% of the Issue Price per Unit of the

New Class. Subject to the maximum 3%, the Manager may change the conversion fee from time to time. No subscription fees payable upon subscription for Units in a class and redemption fees charged upon redeeming Units from a class will be payable by a Unitholder wishing to convert its units into a New Class.

### **Management Fee**

The Manager will be paid a management fee by the Fund equal to 1.5% per annum of the Net Asset Value calculated on a daily basis and accrued as at the relevant Valuation Point on each Valuation Day and payable monthly in arrears

### **Trustee Fee**

The Trustee is entitled to receive from the Sub-Fund a trustee fee of 0.15% per annum for the first HK\$250 million of the Net Asset Value of the Sub-Fund, 0.125% per annum for the next HK\$250 million of the Net Asset Value of the Sub-Fund and 0.11% per annum for the remaining balance of the Net Asset Value of the Sub-Fund as at the relevant Valuation Point, and subject to a minimum monthly fee of HK\$40,000 in relation to the Sub-Fund.

This fee will be calculated and accrued on each Valuation Day and be paid monthly in arrears. The Trustee fee described above represent the current fee rates applicable to the Sub-Fund and does not include the fees payable for the services of any custodians or sub-custodians appointed by the Trustee.

The Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager and for all out-of-pocket expenses incurred by it in the course of its duties. The fee payable to the Registrar is included in the trustee fee.

### **Custodian Fee**

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. Prior to 1 January 2017, the Sub-Fund was subject to custody fees at the rates in the range of 0.01% to 0.09% per annum of the Net Asset Value of the Sub-Fund, depending on the markets where the former custodian is required to hold the Sub-Fund's assets. With effect from 1 January 2017, the current rate of the Custody Fees is up to 0.045% per annum of the Net Asset Value of the Sub-Fund.

The Custodian's fees and charges are accrued daily and are payable monthly in arrears. The Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties.

## **SUBSCRIPTION DETAILS**

Minimum Subscription Amount	HK\$50,000
Minimum Holding Amount	HK\$10,000

Except as otherwise provided, Units in the Sub-Fund will be issued on the Dealing Day for applications, together with cleared application monies received by the Trustee prior to the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor.

For details regarding the procedure for the subscriptions, please refer to the section headed “**Purchase of Units**” in the Explanatory Memorandum.

### **SUBSCRIPTION OF UNITS**

Units are issued by the Trustee at the direction of the Manager who has the exclusive right to offer and issue Units and has complete discretion to accept or reject any subscription for Units.

Applications for subscription of Units may be made on each Dealing Day at the Subscription Price per Unit of the Sub-Fund, subject to a subscription fee is disclosed under the section headed “**Expenses and Charges**” above.

Written applications for subscription of Units must be forwarded to, and received by, the Trustee (via distributors) by no later than the Dealing Deadline. Applications received after this deadline will be processed for subscription on the next Dealing Day.

The Subscription Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of such class of Units in issue rounded up to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may from time to time determine after consulting the Trustee and such amount of fiscal and purchase charges determined by the Manager.

The subscription amount payable for the number of Unit subscribed by a subscriber, in respect of any Dealing Day, is due and payable no later than the Dealing Deadline.

#### **Minimum Subscription**

The minimum subscription per investor that must be subscribed for in relation to Units is HK\$50,000.

The Manager has absolute discretion to determine the number of applications for Units that will be accepted and whether to accept applications from any subscriber for less than the minimum subscription.

The Trustee will send a contract note confirming to each subscriber no later than 2 Business Days after the relevant Dealing Day, and as to whether the subscriber’s application for Unit has been successful, either in whole or in part.

#### **Confirmation of Subscription**

If the relevant application form and/or subscription monies is/are not received by the times stated above, the application will be held over to the next Dealing Day and Units will be issued at the relevant Subscription Price on that Dealing Day.

The Manager reserves the right to reject any application in whole or in part at its absolute discretion, in which event the amount paid on application or the balance thereof (as the case may be) will be returned (without interest) as soon as practicable in HK Dollar at the risk and cost of the applicant.

Applications for Units will not be dealt with and Units will not be issued until receipt of confirmation that an applicant's funds have been cleared in the full amount of the applicable subscription amount. Units are deemed to be issued on the relevant Dealing Day.

In order to be dealt with on a particular Dealing Day, an application form and cleared monies must be received by the Trustee (via distributors) before the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor. Application forms and cleared monies received after such time will be deemed to have been received on the next Dealing Day and will be dealt with accordingly, unless specifically approved by the Manager.

### **REDEMPTION OF UNITS**

The procedures regarding the redemption of Units are described under the section headed "**Redemption of Units**" in the Explanatory Memorandum.

To be dealt with on a particular Dealing Day, the Trustee must receive a redemption request before the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor. Redemption requests received after such time will be deemed to have been received on the next Dealing Day and will be dealt with accordingly. Unless the Manager in any particular case or generally otherwise agrees, a Unitholder may not redeem Units in amounts of less than HK\$10,000.

The Redemption Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units in respect of such Sub-Fund in issue, rounded down to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may determine from time to time after consulting the Trustee.

Unitholders may redeem their Units on any Dealing Day in whole or in part but the Manager may refuse a request for a partial redemption resulting in the Unitholder's holding in the Sub-Fund falling below the Minimum Holding, and in such a situation, the Manager may require the Unitholder to redeem all its Units. The Trustee will send a contract note to each redeeming Unitholder no later than 2 Business Days after the relevant Dealing Day.

The Manager has the discretion to waive, change or accept an amount lower than the amount of minimum redemption or Minimum Holding from time to time, whether generally or in a particular case.

Redemption proceeds will normally be paid in the currency of denomination of the class of Units of the Sub-Fund (unless the Unitholder requests another currency, in which case, the Unitholder will bear any exchange costs) within a maximum period of 7 Business Days from the day a properly documented original request for redemption of Units is accepted by the Trustee and the Manager has not exercised any of its powers described in the section headed "**Suspension of Calculation of Net Asset Value**". In any event, redemption proceeds will be

paid no later than one calendar month from the relevant Dealing Day. Any redemption money unclaimed after six years from the date of payment shall become part of the assets of the Sub-Fund.

All bank charges and costs incurred in the payment of the redemption proceeds to the Unitholder will be borne by the relevant Unitholder and deducted from the redemption proceeds. Any risks arising from delay in clearance of funds by banks will be borne by the relevant Unitholder.

No payments shall be made to a person other than the registered Unitholders.

## **DISTRIBUTIONS**

The Manager may in its absolute discretion make distributions to Unitholders whose names are entered on the register of Unitholders on the corresponding record dates, of such amounts and at such times as the Manager may determine. Where the Manager determines that a distribution will be made, the Manager will give Unitholders notice prior to any distribution (“**Distribution Notice**”).

There is no guarantee that distributions will be made, and, if distribution is made, the amount being distributed.

The distribution policy may be amended subject to the prior approval of the SFC and by giving not less than one month’s prior notice to the Unitholders (if applicable).

### **Distribution from Net income**

Distributions will be derived solely from the net income (after deduction of fees and expenses). No distributions will be paid out of capital or effectively out of capital of the Sub-Fund.

### **Election of Distribution or Reinvestment**

Unitholders may elect to receive cash by way of cheque or other means, or to have their distributions reinvested in further Units of the same class. If no election is made by a Unitholder, the Manager will automatically reinvest the distribution in further Units of the same class.

The Manager will either make distribution or reinvestment as per the Unitholder’s election for all future distributions unless otherwise notified by the Unitholder. Unitholders may change their election at any time by notice to the Manager in writing signed by the Unitholder (or, in the case of joint Unitholders, by each of them), except for the period between the date of a Distribution Notice and the relevant Distribution Date (as defined below). Any election received during the period between the date of a Distribution Notice and the relevant Distribution Date will not be processed and will only take effect from the next distribution.

### **Timing of Distribution or Reinvestment**

Distributions for reinvestment will be paid to the Manager 15 Business Days after the date of the Distribution Notice (“**Distribution Date**”), and the Manager will reinvest in the purchase of Units at the Subscription Price on the Distribution Date. Subscription fees will not be

deducted upon reinvestment of distributions. A statement of reinvestment will be sent to the Unitholder.

Distributions which are not reinvested will be sent by cheque through the post to the registered address of such Unitholder or paid by other means on the Distribution Date. The Fund will not be liable for non-delivery or late delivery of distributions unless the cause of such non-delivery or late delivery is directly attributable to the Fund.

## **RISK FACTORS**

Investment in the Sub-Fund involves risks. In addition to the relevant risks mentioned in the “**RISK FACTORS**” section in the Explanatory Memorandum, investors should also take note of the following risk factors in relation to an investment in the Sub-Fund.

The Sub-Fund may be affected by the following risks, among others:

### **Risks relating to Equity Securities**

A Sub-Fund’s investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors. There can be no assurance that the Manager will be able to predict future price levels correctly. The Sub-Fund’s Net Asset Value will be adversely affected if the price levels of the equity securities drop substantially.

### **PRC Market Risk**

Investing in the securities markets in the PRC is subject to the risks of investing in emerging markets generally and the risks specific to the China market in particular.

Investors should be aware that for more than 50 years, the Chinese government has adopted a planned economic system. Since 1978, the Chinese government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Chinese economy. Such reforms have resulted in significant economic growth and social progress.

Many of the economic reforms in the PRC are unprecedented or experimental and are subject to adjustment and modification, and such adjustment and modification may not always have a positive effect on foreign investment in joint stock limited companies in the PRC or in A-, B- and H Shares.

In view of the small yet slowly increasing number of A, B and H Share issues currently available, the choice of investments available to the Manager will be severely limited as compared with the choice available in other markets. There is a low level of liquidity in the A and B Share markets in the PRC, which are relatively small in terms of both combined total market value and the number of A and B Shares which are available for investment. Investors are warned that this could lead to severe price volatility.

The national regulatory and legal framework for capital markets and joint stock companies in the PRC is not well developed when compared with those of developed countries.

Companies in the PRC are required to follow the Chinese accounting standards and practice which, to a certain extent, follow international accounting standards. However, there may be significant differences between financial statements prepared by accountants following the Chinese accounting standards and practice and those prepared in accordance with international accounting standards.

Both the Shanghai and Shenzhen securities markets are in the process of development and change. High market volatility and potential settlement difficulties in the markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Sub-Fund.

Under the prevailing tax policy in the PRC, there are certain tax incentives available to foreign investment. There can be no assurance, however, that the aforesaid tax incentives will not be abolished in the future.

The Sub-Fund's investments are concentrated in specific geographical location. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Sub-Fund may be more susceptible to adverse social, economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the China market, which may adversely affect the capital growth and thus the performance of the Sub-Fund.

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

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund. The PRC government's control of currency conversion and future movements in exchange rates may adversely affect the operations and financial results of the companies invested in by the Sub-Fund.

Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

### **GDRs and ADRs**

The Sub-Fund may invest in GDRs, which are negotiable certificates issued by depository banks which represent ownership of a given number of an issuer's shares which can be listed and traded independently from the underlying shares. The Sub-Fund may also invest in ADRs, which are receipts issued by an American bank or trust company evidencing ownership of underlying securities issued by a foreign issuer. Such depository receipts may be sponsored by the foreign issuer or may be unsponsored. Unsponsored depository receipts are organised independently and without the cooperation of the foreign issuer of the underlying securities; as a result, available information regarding the issuer may not be as current as for sponsored

depository receipts, and the prices of unsponsored depository receipts may be more volatile than if they were sponsored by the issuers of the underlying securities.

### **Futures Contracts and Options**

The Sub-Fund may trade futures and options. Futures markets are highly volatile. In investing in futures, the Sub-Fund must be able to analyze correctly such markets, which are influenced by, among other things, changing supply and demand relationships, weather, governmental, agricultural, commercial and trade programs and policies designed to influence world political and economic events and changes in interest rates. Purchasing options involves the risk that the instruments underlying the option will not change price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received, which could result in a potentially unlimited loss. Over-the-counter options also involve counterparty solvency risk.

### **Derivatives**

The Sub-Fund may invest in derivative financial instruments, including, without limitation, warrants, options, convertible securities, forward contracts, and futures contracts for hedging purposes only. The use of derivative instruments involves a variety of material risks, including counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a financial derivative instrument can result in a loss significantly greater than the amount invested in the financial derivative instrument by the Sub-Fund. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Sub-Fund to close out positions in order either to realize gains or to limit losses.

Some of the derivatives that may be traded by the Sub-Fund will be principal-to-principal or “over-the-counter” contracts between the Sub-Fund and third parties entered into privately, rather than on an established exchange. As a result, the Sub-Fund will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative should the Sub-Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Sub-Fund’s net asset value and may materially adversely affect the Sub-Fund in situations in which the Sub-Fund is required to sell derivative instruments. The Sub-Fund’s use of derivatives and other techniques for hedging purposes involves certain additional risks, including: (i) dependence on the ability to predict movements in the price of the asset being hedged; (ii) imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of the Sub-Fund’s assets segregated to secure its obligations under derivatives contracts. In addition, by hedging a particular position, the Sub-Fund may limit any potential gain from an



increase in value of such position.

In adverse situations, the Sub-Fund's use of derivatives instruments for hedging purpose may be ineffective and the Sub-Fund may suffer significant losses. Exposure to financial derivative instruments may lead to a high risk of significant loss by the Sub-Fund.

### **Credit Analysis and Credit Risk**

The investment strategy to be utilized by the Manager may require accurate and detailed credit analysis of issuers. There can be no assurance that the Manager's analysis will be accurate or complete. The Sub-Fund may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in its portfolio.

### **Credit Ratings**

Credit ratings of structured finance products, other debt instruments and investments represent the rating agencies' opinions regarding their credit quality and are not a guarantee of future credit performance of such securities. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, the ratings assigned to securities by rating agencies may not fully reflect the true risks of an investment. Further, in recent years, many highly rated structured securities have been subject to substantial losses.

### **Interest Rate Risk**

The Sub-Fund is subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Manager may attempt to minimize the exposure of its portfolio to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Manager will be successful in fully mitigating the impact of interest rate changes on its portfolio.

### **Premium Risk**

Where the Sub-Fund acquires or values securities in the over-the-counter market, there is no guarantee that the Sub-Fund will be able to realise such securities at a premium due to the nature of the over-the-counter market. Subject to the interests of investors and/or the Sub-Fund, the Manager shall make reasonable efforts to reduce the Sub-Fund's exposure to such premium risk.

### **RMB Currency Risk**

RMB is currently not freely convertible and is subject to exchange controls and restrictions. As the exchange rates are influenced by government policy and market forces, the exchange rates for RMB against other currencies, including US dollars and HK dollars, are susceptible to movements based on external factors. Any depreciation of the RMB will decrease the value of RMB-denominated assets the Sub-Fund may hold and of any dividends that the Sub-Fund may

receive from such investments, which may have a detrimental impact on the Net Asset Value of the Sub-Fund, and vice versa.

## **PRC Tax Risks**

### ***Withholding Income Tax (“WHT”)***

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, under the PRC CIT Law and its implementation rules, income derived from the PRC by non-resident enterprises which have no establishment or place in the PRC are subject to CIT on a withholding basis, generally at a rate of 10% currently.

#### *Investing in A Shares*

##### *a. Dividend income*

If the Fund is non-tax resident in the PRC and has no permanent establishment in the PRC, the Fund should technically be subject to WHT at the rate of 10% on dividend income derived from investments in A Shares. The A Shares issuers distributing such dividends are required to withhold such tax. The STA issued circulars to clarify that dividends from A Shares distributed from profits of year 2008 and subsequent years should be subject to WHT at 10% or a reduced rate pursuant to any applicable income tax treaty or arrangement.

##### *b. Capital gains*

Caishui [2014] No.81 (“**Notice 81**”) deals with the PRC taxation rules in relation to SSE Stock Connect. Under Notice 81, CIT and business tax (replaced by value-added tax; please refer to the sub-section headed “PRC Value-added Tax” for further information) are temporarily exempted on gains realized by foreign Hong Kong market investors (including the Fund and Sub-Fund) on the trading of A Shares through SSE under Stock Connect.

#### *Investing in B Shares, H Shares and Red Chips*

##### *a. Dividend income*

If the Fund is non-tax resident in the PRC and has no permanent establishment in the PRC, the Fund should technically be subject to WHT at the rate of 10% on dividend income derived from investments in B Shares and H Shares. The B Shares and H Shares issuers distributing such dividends are required to withhold such tax. The STA issued circulars to clarify that dividends from B Shares and H Shares distributed from profits of year 2008 and subsequent years should be subject to WHT at 10% or a reduced rate pursuant to any applicable income tax treaty or arrangement.

Red Chips are generally not subject to WHT on dividend income, unless the companies stated in relevant announcements that they are regarded as a PRC tax resident enterprise by the STA of the PRC.

The Manager reserves the right to make relevant provision on dividends if the WHT is not withheld at source.

*a. Capital gains*

After the CIT Law took effect on January 1, 2008, a non-resident enterprise which has no permanent establishment in the PRC should technically be subject to WHT on the gains derived from disposal of B Shares or H Shares. The prevailing WHT rate for both gains on disposal and dividends is 10%, with the possibility of reduction or exemption under an applicable double tax treaty or arrangement between the PRC and the jurisdiction where the non-resident enterprise resides.

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

In view of the above, any such WHT on gains on trading of B Shares may reduce the income from, and/or adversely affect the performance of the Fund and/or the Sub-Fund. The amount reserved on account for taxes (which may be payable by the Sub-Fund to any tax authorities in respect of the Sub-Fund's investments) will be derived from assets of the Sub-Fund and will be disclosed in the Fund's annual audited accounts and unaudited semi-annual reports.

Capital gains derived by a non-resident from disposal of Red Chips shares would not be subject to WHT unless the listed company is classified by the PRC tax authority as a PRC tax resident enterprise.

Investors should note that the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Fund and/or Sub-Fund, or the actual tax liabilities may be lower than the tax provision made. As a result, investors may be disadvantaged depending on the final rules of the relevant PRC tax authorities, the level of provision and when they subscribed and/or redeemed their Units. Upon any future 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. Unitholders who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

Notwithstanding the Fund and/or Sub-Fund may invest in securities that are not tightly connected with the PRC, the PRC indirect transfer tax rule under Announcement 7 may still apply if an indirect disposal of an equity interest in PRC resident entities, assets of a PRC establishment or place of business and immovable properties in the PRC are involved, and the Fund and/or Sub-Fund may therefore be subject to PRC tax liabilities.

It should also be noted that the actual applicable tax rates imposed by the 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. As such, any provision for taxation made by the Fund and/or Sub-Fund 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.

***PRC Value-added Tax***

In the PRC, business tax was completely replaced by VAT starting from May 1, 2016. Caishui [2016] No.36 ("**Circular 36**") stipulates that gains derived by taxpayers from the trading of

marketable securities would be subject to VAT at 6%. Meanwhile, Notice 81 stipulates that VAT is temporarily exempt on capital gains derived by Hong Kong market investors (including the Fund and Sub-Fund) on the trading of A Shares through SSE under Stock Connect.

For marketable securities other than those trading through Stock Connect, Circular 36 provides that VAT at 6% should be levied on the difference between the selling and buying prices of those marketable securities. However, capital gains derived from trading of offshore marketable securities, including H-shares and Red Chips, in general are regarded as not subject to VAT as the purchase and disposal are often concluded and completed outside the PRC.

Where VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as a sum of surtaxes of approximately 12% of 6% VAT payable (or an additional 0.72%).

For completeness, dividend income on equity investments derived from the PRC are not included in the taxable scope of VAT.

### ***PRC Stamp Duty***

Stamp Duty (“SD”) under the PRC laws generally applies to the execution and receipt of all taxable documents listed in the PRC’s Provisional Rules on SD. SD is levied on the execution or receipt in the PRC of certain documents, including contracts for the sale of A Shares and B Shares traded on the PRC stock exchanges. In the case of contracts for sale of A Shares and B Shares, such SD is currently imposed on the seller but not on the purchaser, at the rate of 0.1%.

It is unclear whether PRC SD that is imposed on the transfer of shares of PRC companies under the Stamp Duty Regulations would similarly apply to the acquisition and disposal of H shares and Red Chips by non-PRC investors outside the PRC. That said, PRC SD is generally not imposed for trading of H shares and Red Chips in practice.

### ***Legal and regulatory uncertainties***

There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised via QI status or Stock Connect or access products on the Fund’s investments in the PRC (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund’s value. 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 of these changes may reduce the income from, and/or value of, the Units.

There can be no guarantee that new tax laws, regulations and practice in the PRC that may be promulgated in the future will not adversely impact the tax exposure of the Sub-Fund and/or its Unitholders.

### ***Provision for Taxes***

In light of the legal and regulatory uncertainties, the Manager reserves the right to make any provision for taxes or to deduct or to withhold an amount on account of taxes (which may be payable by the Sub-Fund to the PRC tax authorities in respect of its investments in the above

mentioned securities) from assets of the Sub-Fund. While the treatment of WHT by the PRC tax authorities on gains derived from investments in B Shares is still pending, based on professional and independent tax advice, the Fund (and the Sub-Fund) will withhold 10% for tax provisions on any gross, realized or unrealized gains (including capital gains) on B Shares, to provide for possible tax costs to be incurred when a gain is crystalized.

Any provision for taxes made by the Manager may be more than or less than the Sub-Fund's actual PRC tax liabilities. Any shortfall between the provision and the actual tax liabilities, which will be debited from the Sub-Fund's assets, will adversely affect the Sub-Fund's Net Asset Value. The actual tax liabilities may be lower than the tax provision made. Depending on the timing of their subscriptions and/or redemptions, investors may be disadvantaged as a result of any shortfall of tax provision and will not have the right to claim any part of the overprovision (as the case may be).

### **Duration of Investment Positions**

The Manager may not know, except in the case of certain options or derivatives positions which have pre-established expiration dates, the maximum — or even the expected (as opposed to optimal) — duration of any particular position at the time of initiation. The length of time for which a position is maintained may vary significantly, based on the Manager's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses.

The Sub-Fund's transactions involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that the Sub-Fund will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

### **Portfolio Management Risk**

The Manager may use futures and options for hedging purposes only. Due to the nature of futures, cash to meet initial and future margin deposits may be held by a broker with whom the Fund has an open position. On execution of the option, the Sub-Fund may pay a premium to a counterparty. In the event of bankruptcy of the counterparty the option premium may be lost, in addition to, any unrealised gains where the contract is "in the money".

### **Risk relating to Distributions**

Distributions are not guaranteed, and therefore, investors may not receive any distributions from the Sub-Fund. Income received for the account of the Sub-Fund may be reinvested by the Manager. There is no assurance that an investor will achieve a return on the reinvestment or a return of the original investment amount.

Investors should also understand that any declaration of a distribution may not indicate whether the Sub-Fund has made profit whether of a capital or income nature.

## APPENDIX B

### TAIPING INVESTMENT GRADE BOND FUND

#### DEFINITIONS

Save as provided below, the defined terms used in the Explanatory Memorandum have the same meaning in this Appendix B. In addition, the following expressions shall have the following meanings in this Appendix B:

“ <b>Base Currency</b> ”	US dollars or USD
“ <b>Dealing Day</b> ”	each Business Day
“ <b>Dealing Deadline</b> ”	4:00 p.m. (Hong Kong time) on the relevant Dealing Day
“ <b>Initial Offer Period</b> ”	the period commencing 9.00 a.m. (Hong Kong time) on 5 February 2024 to 4.00 p.m. (Hong Kong time) on 7 February 2024 (or such other dates as the Manager may determine)
“ <b>Sub-Fund</b> ”	Taiping Investment Grade Bond Fund
“ <b>Valuation Day</b> ”	each Dealing Day

#### INTRODUCTION

This Appendix contained in this Explanatory Memorandum relates solely to Taiping Investment Grade Bond Fund.

#### INVESTMENT OBJECTIVE AND STRATEGY

##### **Investment Objective**

The Sub-Fund seeks to provide Unitholders with income and medium to long term capital appreciation through investing in investment grade fixed income instruments in markets worldwide over time.

##### **Investment Strategy**

The Sub-Fund will invest primarily (at least 70% of its Net Asset Value) in fixed income instruments denominated in any currency (including “dim sum” bonds, i.e. bonds issued outside of Mainland China but denominated in RMB) issued or guaranteed by governments, corporate or institutional (such as bank) issuers globally with an investment grade rating (i.e. having a credit rating of Baa3 or BBB- or above by Standard & Poor’s, Fitch, Moody’s or another internationally recognised credit rating agency) or fixed income instruments with issuers of investment grade rating if the instrument does not have a credit rating.

The Sub-Fund will not invest in fixed income instruments which are below investment grade or unrated. For the purpose of the Sub-Fund, “**unrated**” fixed income instruments refer to those which neither the instruments themselves nor their issuers have a credit rating. Where the Manager foresees any event of a credit downgrade, removal of credit rating or default of the issuers of a fixed income instrument, which is the usual case, the Manager will rebalance the Sub-Fund’s portfolio prior to the occurrence of such event. If the Manager cannot foresee such event, where the credit ratings of the relevant fixed income instruments are downgraded to below investment grade, the Manager will, having regard to the interest of the Unitholders, seek to rebalance the portfolio and dispose of such downgraded fixed income instruments in a gradual and orderly manner in light of the then prevailing market conditions.

For the remaining portion of its Net Asset Value, the Sub-Fund may invest less than 30% of its Net Asset Value in money market instruments, commercial papers, certificates of deposits, commercial bills which are issued by international issuers (such as financial institutions, corporations, government, quasi-government organisations, agencies, organizations or entities) of investment grade.

The Sub-Fund may also invest up to 10% of its Net Asset Value in aggregate in collective investment schemes.

The Sub-Fund may invest less than 30% of its Net Asset Value in urban investment bonds, which are debt instruments issued by Mainland local government financing vehicles (“**LGFVs**”). 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 less than 30% of its Net Asset Value in debt instruments with loss-absorption features (“**LAP**”) (e.g. contingent convertible bonds (“**CoCos**”), Additional Tier 1 Capital, Tier 2 Capital and senior non-preferred debts). These instruments may be subject to contingent write-down or contingent conversion to ordinary shares on the occurrence of trigger event(s).

While it is not the intention of the Manager to invest primarily in any single country or region, the Sub-Fund’s aggregate exposure to Mainland China, including investments in offshore securities issued or guaranteed by issuers domiciled or carrying out the predominant part of their economic activities in Mainland China may, on an occasional basis, be significant, but will be less than 60% of its Net Asset Value. The Manager does not expect that the Sub-Fund will invest 30% or more of its Net Asset Value in any single country or region other than Mainland China. The Sub-Fund does not intend to invest in onshore securities issued in Mainland China.

The Sub-Fund is not subject to any limitation on the market capitalisation of issuers.

In normal market conditions, the Sub-Fund may also hold less than 30% of its Net Asset Value in cash or cash equivalents. Under exceptional circumstances (e.g. extreme volatility of the markets closure, suspension or restriction of trading on any market on which a substantial proportion of the Sub-Fund’s investments are traded, or major crisis), the Manager may temporarily hold a substantial portion of the Sub-Fund’s assets (up to 100% of its Net Asset Value) in cash or cash equivalents, or invest in short-term money market instruments for liquidity management and/or defensive purpose to preserve the value of the assets in the investment portfolio of the Sub-Fund.

The Sub-Fund may also invest in financial derivative instruments for hedging purposes only but not for investment purposes, subject to the investment restrictions set out in this Explanatory Memorandum. The Sub-Fund's net derivative exposure may be up to 50% of the Sub-Fund's Net Asset Value.

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

## **EXPENSES AND CHARGES**

### **Fee Payable by the Unitholders**

#### *Subscription Fee*

The Manager may charge Unitholders a subscription fee of up to 5% of the total value of the Units subscribed for by the investor or Unitholder. Subject to the maximum 5%, the Manager may change the subscription fee from time to time.

The current Subscription Fee is 5% on the Issue Price of each Unit. For example, assuming that an investor subscribes for HK\$105,000.00 with Issue Price per Unit at HK\$100.00, the amount of Subscription Fee payable would be HK\$5,000.00, i.e.  $\text{HK\$}105,000.00 - \text{HK\$}105,000.00 / (1 + 5\%)$ , and the investor will subscribe for 1,000.00 Units at the Issue Price of HK\$100.00 per Unit after the deduction of the Subscription Fee.

The Manager may share its fees with any persons who distribute Units or otherwise procure subscriptions to the Sub-Fund.

#### *Redemption Fee*

The Manager may charge redeeming Unitholders a redemption fee of up to 4% of the Redemption Price per Unit for the Sub-Fund. Subject to the maximum 4%, the Manager may change the redemption fee from time to time.

Currently, no redemption fee will be charged for redemption of Units in the Sub-Fund.

#### *Conversion Fee*

The Manager may charge a Unitholder wishing to convert its Units of a class into Units of another sub-fund of the Fund ("**New Class**") a conversion fee of up to 3% of the Issue Price per Unit of the New Class. Subject to the maximum 3%, the Manager may change the conversion fee from time to time. No subscription fees payable upon subscription for Units in a class and redemption fees charged upon redeeming Units from a class will be payable by a Unitholder wishing to convert its units into a New Class.



## Fee Payable by the Sub-Fund

### *Management Fee*

Currently, the Manager will be paid a management fee in respect of each class of Units set out below, which is calculated on a daily basis and accrued as at the relevant Valuation Point on each Valuation Day and payable monthly in arrears:

<b>Class</b>	<b>Management fee (as a % per annum of the Net Asset Value)</b>
Class A (USD)	0.80%
Class A (HKD)	0.80%
Class A (RMB)	0.80%
Class I (USD)*	0.40%
Class I (HKD)*	0.40%
Class I (RMB)*	0.40%

\* Class I Units are only available to professional investors.

### *Trustee Fee*

The Trustee is entitled to receive from the Sub-Fund a trustee fee of up to 0.15% per annum on the Net Asset Value of the Sub-Fund as at the relevant Valuation Point, and subject to a minimum monthly fee of US\$4,000 in relation to the Sub-Fund.

This fee will be calculated and accrued on each Valuation Day and be paid monthly in arrears. The Trustee fee described above represent the current fee rates applicable to the Sub-Fund and does not include the fees payable for the services of any custodians or sub-custodians appointed by the Trustee.

The Trustee is also entitled to receive transaction, processing and valuation fees and be paid or reimbursed with other applicable fees as agreed with the Manager and for all out-of-pocket expenses incurred by it in the course of its duties. The fee payable to the Registrar is included in the trustee fee.

### *Custodian Fee*

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. The current rate of the Custody Fees is up to 0.017% per annum of the Net Asset Value of the Sub-Fund.

The Custodian's fees and charges are accrued daily and are payable monthly in arrears. The Custodian will also be entitled to reimbursement by the Sub-Fund for any out-of-pocket expenses incurred in the course of its duties.

### *Establishment Costs*

The establishment costs and payments incurred in the establishment of the Sub-Fund are approximately USD52,000, which will borne by the Sub-Fund and amortised over the first 5

Accounting Periods from the date of launch of the Sub-Fund (or such other period as the Manager after consultation with the Auditor shall determine).

## SUBSCRIPTION OF UNITS

Units are issued by the Trustee at the direction of the Manager who has the exclusive right to offer and issue Units and has complete discretion to accept or reject any subscription for Units.

Units of each Class of the Sub-Fund will be offered for the first time at the following Issue Price during the Initial Offer Period:

Class	Issue Price per Unit
Class A (USD)	USD 10
Class A (HKD)	HKD 10
Class A (RMB)	RMB 10
Class I (USD)*	USD 10
Class I (HKD)*	HKD 10
Class I (RMB)*	RMB 10

\* Class I Units are only available to professional investors.

The offering of Units of the Sub-Fund is conditional upon the minimum subscription level of USD 16.5 million (“**Minimum Subscription Level**”) in aggregate being received on or prior to the close of the Initial Offer Period. For further details, please refer to the section headed “**Offering**” above.

After the close of the Initial Offer Period, applications for subscription of Units may be made on each Dealing Day at the Subscription Price per Unit of the Sub-Fund, subject to a subscription fee is disclosed under the section headed “**Expenses and Charges**” above.

Written applications for subscription of Units must be forwarded to, and received by, the Trustee (via distributors) by no later than the Dealing Deadline. Applications received after this deadline will be processed for subscription on the next Dealing Day.

The Subscription Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the relevant Dealing Day by the number of such class of Units in issue rounded up to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may from time to time determine after consulting the Trustee and such amount of fiscal and purchase charges determined by the Manager.

The subscription amount payable for the number of Unit subscribed by a subscriber, in respect of any Dealing Day, is due and payable no later than the Dealing Deadline.

## Minimum Subscription

The table below sets out the minimum initial and subsequent subscription amounts for classes of Units of the Sub-Fund which are currently available:

Class	Minimum Initial Subscription Amount	Minimum Subsequent Subscription Amount
Class A (USD)	USD 2,000	USD 2,000
Class A (HKD)	HKD 10,000	HKD 10,000
Class A (RMB)	RMB 10,000	RMB 10,000
Class I (USD)*	USD 1,000,000	USD 1,000,000
Class I (HKD)*	HKD 5,000,000	HKD 5,000,000
Class I (RMB)*	RMB 5,000,000	RMB 5,000,000

\* Class I Units are only available to professional investors.

The Manager has absolute discretion to determine the number of applications for Units that will be accepted and whether to accept applications from any subscriber for less than the minimum subscription.

The Trustee will send a contract note confirming to each subscriber no later than 2 Business Days after the relevant Dealing Day, and as to whether the subscriber's application for Unit has been successful, either in whole or in part.

## Confirmation of Subscription

If the relevant application form and/or subscription monies is/are not received by the times stated above, the application will be held over to the next Dealing Day and Units will be issued at the relevant Subscription Price on that Dealing Day.

The Manager reserves the right to reject any application in whole or in part at its absolute discretion, in which event the amount paid on application or the balance thereof (as the case may be) will be returned (without interest) as soon as practicable at the risk and cost of the applicant.

Applications for Units will not be dealt with and Units will not be issued until receipt of confirmation that an applicant's funds have been cleared in the full amount of the applicable subscription amount. Units are deemed to be issued on the relevant Dealing Day.

In order to be dealt with on a particular Dealing Day, an application form and cleared monies must be received by the Trustee (via distributors) before the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor. Application forms and cleared monies received after such time will be deemed to have been received on the next Dealing Day and will be dealt with accordingly, unless specifically approved by the Manager.

For details regarding the procedure for the subscriptions, please refer to the section headed "**Purchase of Units**" in the Explanatory Memorandum.

## REDEMPTION OF UNITS

The procedures regarding the redemption of Units are described under the section headed “**Redemption of Units**” in the Explanatory Memorandum.

To be dealt with on a particular Dealing Day, the Trustee must receive a redemption request before the Dealing Deadline. Investors should confirm the relevant cut-off times with their distributor. Redemption requests received after such time will be deemed to have been received on the next Dealing Day and will be dealt with accordingly. Unless the Manager in any particular case or generally otherwise agrees, a Unitholder may not redeem Units in amounts of less than the minimum redemption amount for the relevant class of Units as set out below.

The Redemption Price on any Dealing Day is the price per Unit ascertained by dividing the Net Asset Value of the relevant class of Units of the Sub-Fund as at the Valuation Point in respect of the Dealing Day by the number of such class of Units in respect of such Sub-Fund in issue, rounded down to the nearest 2 decimal places or in such manner and to such other number of decimal places as the Manager may determine from time to time after consulting the Trustee.

Unitholders may redeem their Units on any Dealing Day in whole or in part but the Manager may refuse a request for a partial redemption resulting in the Unitholder’s holding in the Sub-Fund falling below the Minimum Holding, and in such a situation, the Manager may require the Unitholder to redeem all its Units. The Trustee will send a contract note to each redeeming Unitholder no later than 2 Business Days after the relevant Dealing Day.

The minimum redemption and Minimum Holding for each class of Units of the Sub-Fund are as follows:

<b>Class</b>	<b>Minimum Redemption</b>	<b>Minimum Holding</b>
Class A (USD)	USD 2,000	USD 2,000
Class A (HKD)	HKD 10,000	HKD 10,000
Class A (RMB)	RMB 10,000	RMB 10,000
Class I (USD)*	USD 1,000,000	USD 1,000,000
Class I (HKD)*	HKD 5,000,000	HKD 5,000,000
Class I (RMB)*	RMB 5,000,000	RMB 5,000,000

\* Class I Units are only available to professional investors.

The Manager has the discretion to waive, change or accept an amount lower than the amount of minimum redemption or Minimum Holding from time to time, whether generally or in a particular case.

Redemption proceeds will normally be paid in the currency of denomination of the class of Units of the Sub-Fund (unless the Unitholder requests another currency, in which case, the Unitholder will bear any exchange costs) within a maximum period of 7 Business Days from the day a properly documented original request for redemption of Units is accepted by the Trustee and the Manager has not exercised any of its powers described in the section headed “**Suspension of Calculation of Net Asset Value**”. In any event, redemption proceeds will be paid no later than one calendar month from the relevant Dealing Day. Any redemption money

unclaimed after six years from the date of payment shall become part of the assets of the Sub-Fund.

All bank charges and costs incurred in the payment of the redemption proceeds to the Unitholder will be borne by the relevant Unitholder and deducted from the redemption proceeds. Any risks arising from delay in clearance of funds by banks will be borne by the relevant Unitholder.

No payments shall be made to a person other than the registered Unitholders.

### **CONVERSION OF UNITS**

For details regarding the procedure for conversion of Units of the Sub-Fund, please refer to the section headed “**Conversion between Units and Sub-Funds**” in the Explanatory Memorandum.

### **DISTRIBUTIONS**

The Manager may in its absolute discretion make distributions to Unitholders whose names are entered on the register of Unitholders on the corresponding record dates, of such amounts and at such times as the Manager may determine. Where the Manager determines that a distribution will be made, the Manager will give Unitholders notice prior to any distribution (“**Distribution Notice**”).

There is no guarantee that distributions will be made, and, if distribution is made, the amount being distributed.

Distributions will be paid in the class currency of the relevant class of Units.

The distribution policy may be amended subject to the prior approval of the SFC and by giving not less than one month’s prior notice to the Unitholders (if applicable).

#### **Distribution from Net income**

Distributions will be derived solely from the net income (after deduction of fees and expenses). No distributions will be paid out of capital or effectively out of capital of the Sub-Fund.

#### **Timing of Distribution**

Distributions will be sent by cheque through the post to the registered address of such Unitholder or paid by other means 15 Business Days after the date of the Distribution Notice. The Fund will not be liable for non-delivery or late delivery of distributions unless the cause of such non-delivery or late delivery is directly attributable to the Fund.

### **RISK FACTORS**

Investment in the Sub-Fund involves risks. In addition to the relevant risks mentioned in the “**RISK FACTORS**” section in the Explanatory Memorandum, investors should also take note of the following risk factors in relation to an investment in the Sub-Fund.

The Sub-Fund may be affected by the following risks, among others:

### **Risks Associated with Fixed Income Instruments**

#### *Credit / Counterparty Risk*

The Sub-Fund is exposed to the credit / default risk of issuers of the fixed income instruments that the Sub-Fund may invest in. Such securities are typically unsecured debt obligations and are not supported by collateral. It 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 the fixed income securities only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit / default risk of its counterparties as an unsecured creditor.

The Sub-Fund is exposed to the risk that a counterparty in a transaction may default in its obligation to settle the transaction, or may be unable or unwilling to make timely payments on principal and/or interest. Where its counterparty does not perform its obligations under a transaction, the Sub-Fund may sustain substantial losses. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against issuers incorporated outside Hong Kong and subject to foreign laws.

#### *Interest Rate Risk*

Investment of the Sub-Fund is subject to interest rate risk. In general, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The Manager may attempt to minimise the exposure of its portfolio to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Manager will be successful in fully mitigating the impact of interest rate changes on its portfolio.

#### *Volatility and Liquidity Risk*

The fixed income instruments in certain countries and regions (such as emerging markets) may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The price at which the fixed income securities are traded may be higher or lower than the initial subscription price due to many factors including the prevailing interest rates. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may incur significant trading costs.

There may not be an active secondary market for the fixed income securities the Sub-Fund invests in. The Sub-Fund is therefore subject to liquidity risks and may suffer losses in trading such instruments. Even if the fixed income securities are listed, the market for such securities may be inactive and the trading volume may be low. In the absence of an active secondary market, the Sub-Fund may need to hold the fixed income securities until their maturity date.

There is a risk that if the Sub-Fund is required to meet sizeable redemption requests, the Sub-Fund may need to liquidate its investments at a substantial discount in order to satisfy such requests and it may incur significant trading and realisation costs and suffer losses accordingly.

The offshore (that is, outside Mainland China) RMB denominated fixed income securities markets are at a developing stage and the trading volume may be lower than those of the more developed markets. Market volatility and potential lack of liquidity due to low trading volume in the RMB denominated fixed income securities market may result in prices of fixed income securities traded on such markets fluctuating significantly and may affect the volatility of the Sub-Fund's Net Asset Value.

#### *Downgrading Risk*

Investors should note that even if a fixed income instrument or its issuer may be assigned a certain credit rating at the time the Sub-Fund acquires the relevant instrument, there is no assurance that (a) it will not be downgraded or (b) it will continue to be rated in future. In the event of such downgrading, the value of the Sub-Fund may be adversely affected. The Manager may or may not be able to dispose of the fixed income instruments that are being downgraded.

#### *Sovereign Debt Risk*

The Sub-Fund's investment in instruments 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.

#### *Valuation Risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the Net Asset Value calculation of the Sub-Fund.

The value of fixed income securities may be affected by changing market conditions or other significant market events affecting valuation. In adverse market conditions or where an adverse event happens to the issuer (e.g. credit rating downgrading), the value of lower rated securities may decline in value due to investors' perception over credit quality.

#### *Credit Rating Risk*

Credit ratings assigned by rating agencies are subject to limitations and do not guarantee the creditworthiness of the security and/or issuer at all times. The credit rating of a debt security is not the only selection criterion used by the Manager. Whilst the Manager may use credit ratings for reference in its investment process, it will primarily refer to its internal assessments to evaluate the credit quality of fixed income instruments, for example, when it believes that the credit rating given by credit rating agencies does not adequately reflect the credit risks.

#### **Emerging Markets Risk**

The Sub-Fund may invest in fixed income and debt instruments issued in emerging markets which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political

and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility.

### **Risks Associated with LAP Instruments**

Fixed income instruments with loss-absorption features are subject to greater risks when compared to traditional fixed income instruments as such instruments are typically subject to the risk of being written down or converted to ordinary shares upon the occurrence of pre-defined trigger events (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.

The Sub-Fund may invest in CoCos, which are highly complex and are of high risk. Upon the occurrence of the trigger event, CoCos may be converted into shares of the issuer (potentially at a discounted price), or may be subject to the permanent write-down to zero. Coupon payments on CoCos are discretionary and may be cancelled by the issuer at any point, for any reason, and for any length of time.

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.

### **Mainland China Investment Risks**

#### *General*

Investing in Mainland China securities markets is subject to the risks of investing in emerging markets generally and the risks specific to the Mainland China market in particular.

Since 1978, the Chinese government has implemented economic reform measures which emphasise decentralisation and the utilisation of market forces in the development of the Mainland Chinese economy. Many of the economic reforms in Mainland China are unprecedented or experimental and are subject to adjustment and modification. Any significant change in such reforms may have a negative impact on investments in the Mainland China market.

The regulatory and legal framework for capital markets and joint stock companies in Mainland China is still under development. Mainland Chinese accounting standards and practice may deviate significantly from international accounting standards. The settlement and clearing systems of the Mainland Chinese securities markets may not be as well tested and may be subject to increased risks of error or inefficiency.

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



Both the Shanghai and Shenzhen securities markets are in the process of development and change. High market volatility and potential settlement difficulties in the markets may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the value of the Sub-Fund.

Under the prevailing tax policy in Mainland China, there are certain tax incentives available to foreign investment. There can be no assurance, however, that the aforesaid tax incentives will not be abolished in the future.

#### *Risks Relating to Investment in Urban Investment Bonds*

Urban investment bonds are issued by local government financing vehicles (“LGFVs”), such bonds are typically not guaranteed by local governments or the central government of Mainland China. 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.

#### *“Dim Sum” Bond Market Risks*

The “Dim Sum” bond (i.e. bonds issued outside of Mainland China but denominated in RMB) is still a relatively small market which is more susceptible to volatility and illiquidity. The operation of the “Dim Sum” bond market as well as new issuances could be disrupted causing a fall in the Net Asset Value of the Sub-Fund should there be any promulgation of new rules which limit or restrict the ability of issuers to raise RMB by way of bond issuances and/or reversal or suspension of the liberalisation of the offshore RMB (CNH) market by the relevant regulator(s).

#### **Concentration Risk**

The Sub-Fund may have significant exposure to Mainland China. The value of the Sub-Fund may be more volatile than that of a fund having a more diverse portfolio of investments.

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

#### **RMB Currency and Conversion Risks**

RMB is currently not freely convertible and is subject to exchange controls and restrictions.

Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors’ base currencies (for example HKD) will not depreciate. Any depreciation of RMB could adversely affect the value of investor’s investment in the Sub-Fund.

Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.

Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

### **Risks of Investing in Other Collective Investment Schemes**

The underlying collective investment schemes in which the Sub-Fund may invest may not be regulated by the SFC. There may be additional costs involved when investing into these underlying collective investment schemes. There is also no guarantee that the underlying collective investment schemes will always have sufficient liquidity to meet the Sub-Fund's redemption requests as and when made.

### **Risk relating to Distributions**

Distributions are not guaranteed, and therefore, investors may not receive any distributions from the Sub-Fund. Income received for the account of the Sub-Fund may be reinvested by the Manager. There is no assurance that an investor will achieve a return on the reinvestment or a return of the original investment amount. Investors should also understand that any declaration of a distribution may not indicate whether the Sub-Fund has made profit whether of a capital or income nature.