



# ZEAL *Voyage China Fund*

Explanatory Memorandum

November 2021

- ***This statement provides you with key information about this product.***
- ***This statement is a part of the Explanatory Memorandum.***
- ***You should not invest in this product based on this statement alone.***

### Quick facts

<b>Manager:</b>	Zeal Asset Management Limited		
<b>Trustee:</b>	BOCI-Prudential Trustee Limited		
<b>Custodian:</b>	Bank of China (Hong Kong) Limited		
<b>Ongoing charges over a year<sup>#</sup>:</b>	Without performance fee: 1.98% With performance fee <sup>@</sup> : 1.98%		
<b>Dealing frequency:</b>	Daily (Hong Kong business days)		
<b>Base currency:</b>	Hong Kong Dollars (HKD)		
<b>Dividend policy:</b>	<p>For HKD (dist) Units: Subject to the Manager's discretion, dividends will be declared on a semi-annual basis on such date which is within a reasonable time period after the end of March and the end of September of each year. Distributions will not be paid out of capital or effectively out of capital of the fund. There is no guarantee that any distributions will be made and there is no target level of distribution payout. Any distributions payable (if any) will be automatically reinvested unless otherwise elected by the Unitholder.</p> <p>For all other classes of units, it is the current intention of the Manager that distributions of income will not be made from the fund.</p>		
<b>Financial year end of this fund:</b>	31 December		
<b>Minimum investment:</b>		Initial	Additional
	AUD (hedged) Units	AUD7,500	AUD150
	HKD Units	HKD50,000	HKD1,000
	HKD (dist) Units	HKD50,000	HKD1,000
	RMB (hedged) Units	RMB50,000	RMB1,000
	USD Units	USD6,500	USD130

### What is this product?

This is a fund constituted in the form of a unit trust established under the laws of Hong Kong.

<sup>#</sup> A single ongoing charges figure is published for all classes of Units offered to the public, which have the same fee structure. It is based on the ongoing charges incurred by the fund for the year ended 31 December 2023 based on the information in the latest annual report divided by the average net assets over the same period. The actual ongoing charges figure may be different and may vary from year to year.

<sup>@</sup> The ongoing charges over a year (with performance fee) was calculated based on the amount of performance fee accrued as at the end of the year divided by the net assets as at the end of the year.

## Objectives and Investment Strategy

### Objective

To generate long-term capital appreciation by primarily investing in listed equities with a China focus.

### Strategy

The fund seeks to achieve its objective primarily through exposure to companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue from business related to China.

The fund primarily invests in securities listed on The Stock Exchange of Hong Kong, the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange. Generally, the asset allocation strategy is that at least 70% of the fund's non-cash assets will be invested in securities listed on The Hong Kong Stock Exchange, and 0% to 20% in securities listed on the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange (exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure, such as through investing in exchange traded funds ("ETFs") and/or other funds that invest in the relevant mainland China listed shares and/or derivative instruments, and direct exposure (in the case of A-shares, such as via the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect (together, the "Stock Connect") and/or other relevant programmes when such other relevant programmes become available). In addition, at least 80% of the fund's Net Asset Value will be invested in China-related investments.

The fund makes investments into companies that, in the Manager's opinion, have been undervalued by the market.

Investments in ETFs by the Fund are considered and treated as listed securities for the purposes of and subject to the requirements in Chapters 7.1, 7.1A and 7.2 of the Code.

The fund may use derivatives for hedging and/or investment purposes (notwithstanding this, derivatives will not be extensively or primarily used for investment purposes). The derivative instruments used by the fund for investment purpose will broadly fall under two categories: (i) derivative instruments which do not create any leveraged effect and used primarily for accessing a restricted market such as the A-share market, including, without limitation, Access Products and participatory notes; and (ii) other types of derivatives which create a leveraged effect, including, without limitation, exchange-traded or over-the-counter options and futures.

Consistent with the fund's investment restrictions: (a) the fund's investments in warrants and options (in terms of total amount of premium paid) for investment purposes will not exceed 15% of the fund's net asset value; and (b) the fund's investments in futures contracts on an unhedged basis (by reference to the net aggregate value of contract prices, whether payable to or by the fund) and commodities (such as physical commodities and commodity based investments) will not exceed 20% of the fund's net asset value.

The fund may take short positions through derivatives for hedging purposes only.

Should there be any change in the above policy, where necessary, the SFC's prior approval will be sought and prior notice will be given to Unitholders before such change takes effect.

### Use of derivatives

The fund's net derivative exposure may be up to 50% of its net asset value.

## **What are the key risks?**

**Investment involves risks. Please refer to the Explanatory Memorandum for details including the risk factors.**

### **1. Investment risk**

- The fund's investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the fund may suffer losses. There is no guarantee of the repayment of principal.

### **2. Equity market risk**

- The 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.

### **3. Concentration risk**

- The fund's investments are concentrated in mainland China and Hong Kong. This may result in greater volatility than portfolios which comprise broad-based global investments. The value of the fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the mainland China and Hong Kong market.

### **4. Risks associated with investing in mainland China**

- High market volatility and potential settlement difficulties in the China market 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 fund.
- Securities exchanges in China 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 fund.

### **5. Risk associated with investing in other funds**

- The underlying fund in which the fund may invest may not be regulated by the SFC. There will be additional costs involved when investing into these underlying funds. There is also no guarantee that the underlying funds will always have sufficient liquidity to meet the fund's redemption requests as and when made. There can also be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.
- Conflicts of interests may arise in a situation where the fund invests in other funds managed by the Manager or its connected persons (despite that all initial charges and, where the underlying fund is managed by the Manager, all management fees and performance fees on the underlying fund will be waived). The Manager will use its best endeavours to avoid and resolve such conflicts fairly.

### **6. Risks associated with Stock Connect**

- The relevant rules and regulations on Stock Connect are subject to change which may have potential retrospective effect. The Stock Connect is subject to quota limitations. Where a suspension in trading through the program is effected, the fund's ability to invest in A-Shares or access the mainland China market through the program will be adversely affected. In such event, the fund's ability to achieve its investment objective could be negatively affected.

## **7. RMB currency risk**

- The RMB is not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the Chinese government. Such government policies and restrictions are subject to change, and there can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.
- The fund's portfolio will be primarily denominated in HKD. Where an investor subscribes for units denominated in RMB, the Manager may convert such subscription monies into HKD or USD prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems units denominated in RMB, the Manager may sell the fund's portfolio investments and then convert the proceeds of sale into RMB at the applicable exchange rate and subject to the applicable spread. In such case an investor may enjoy a gain in HKD (or USD) terms but suffer a loss when converting currencies between HKD (or USD) and RMB. Any depreciation of RMB could adversely affect the value of the investor's investment in the fund.
- In calculating the net asset value of a class of units denominated in RMB and in effecting any currency conversions involving RMB, the Manager will apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). Whilst the RMB (CNH) and RMB (CNY) represent the same currency, they are traded in different rates and separate markets which operate independently. As such, RMB (CNH) may trade at a premium or discount to RMB (CNY) and they may even move in different directions. Any divergence between RMB (CNH) and RMB (CNY) may adversely impact investors.
- Under exceptional circumstances, payment of redemptions in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

## **8. Hedged class risk**

- The Manager generally seeks to hedge the foreign currency exposure of any hedged unit class to the base currency, with the aim of reducing the impact of currency fluctuations of the relevant class currency against the base currency. Investors in hedged classes bear the associated costs and may also be exposed to the risks associated with the instruments used in the hedging process.
- There is no guarantee that the desired hedging instruments will be available or that the hedging techniques employed by the Manager will be effective in achieving their desired result. Hedging can also limit potential gains of a hedged unit class. Whilst hedging may protect investors against a decrease in the value of the base currency relative to the relevant class currency, it may also preclude investors from benefitting from any increase in value of the base currency. Investors should also be aware that the volatility of a hedged class may be higher than that of the equivalent class denominated in the fund's base currency.

**9. Mainland China tax risk**

- There are risks and uncertainties associated with the current mainland China tax laws, regulations and practice in respect of capital gains realised via the Stock Connect or Access Products on the fund's investments in mainland China (which may have retrospective effect). Any increased tax liabilities on the fund may adversely affect the fund's value.
- The Manager has not made and currently has no intention to make provision in respect of potential tax liability on gains on trading of B-shares. The Manager will also not make any withholding income tax provision on the gross unrealised and realised capital gains derived by the fund from investments in A-shares through the Stock Connect or on capital gains derived through Access Products with exposure to A-shares. However, this approach may be changed if, in the opinion of the Manager, a provision is warranted.

**10. Performance fee risk**

- Performance fees may encourage the Manager to make riskier investments than would be the case in the absence of a performance-based incentive system.
- The method of calculating performance fee gives rise to the risk that a Unitholder redeeming units may still incur performance fee in respect of the units, even though a loss in investment capital has been suffered by the redeeming Unitholder.
- In addition, performance fees may be paid on unrealized gains which may never be realised by the fund.

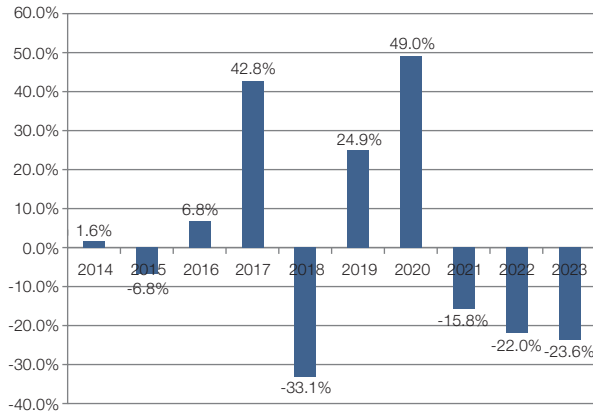
**11. Derivatives risk**

- Risks associated with derivatives include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element / component of a derivative instrument can result in a loss significantly greater than the amount invested in the derivative instrument by the fund. Exposure to derivatives may lead to a high risk of significant loss by the fund.

**12. Access Products risk**

- Certain Access Products in which the fund invests so as to synthetically replicate the economic performance of the underlying shares or portfolio of shares do not provide any beneficial or equitable entitlement or interest in the shares to which such instruments are linked. Because an Access Product constitutes an unsecured contractual obligation of the relevant issuer, rather than a direct investment in shares, the fund is subject to credit risk of the issuer of the relevant Access Product. The fund may suffer losses, potentially equal to the full value of the Access Product, if the relevant issuer fails to perform its obligations under the instrument.

### How has the fund performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividend (if any) reinvested.
- HKD Units has been selected as the representative unit class of the fund for the purpose of presenting past performance information on the basis that HKD is the base currency of the fund. Past performance information of the other unit classes are available on the Manager's website.
- These figures show by how much the HKD Units increased or decreased in value during the calendar year shown. Performance data has been calculated in HKD including ongoing charges and excluding subscription fee you might have to pay.
- Where no past performance is shown there was insufficient data available that year to provide performance.
- Fund launch date: 2010

### Is there any guarantee?

Like most funds, this fund does not have any guarantees. You may not get back the full amount of money you invest.

## What are the fees and charges?

Charges which may be payable by you

You may have to pay the following fees when dealing in the units of the fund.

<b>Fee</b>	<b>What you pay</b>
<b>Subscription fee</b>	Up to 5% of the amount you buy
<b>Conversion fee</b>	Up to 1%* of the unit redemption price for each unit converted
<b>Redemption fee</b>	Nil

## Ongoing fees payable by the fund

The following expenses are paid out of the fund. They affect you because they reduce the return you get on your investments.

<b>Fee</b>	<b>Annual rate (as a % of the fund's value)</b>
<b>Management fee</b> The fund pays a management fee to the Manager	1.75%*
<b>Trustee fee</b> The fund pays a trustee fee to the Trustee	Up to 0.15%*, subject to a minimum monthly fee of HK\$40,000
<b>Performance fee</b> The fund pays a performance fee to the Manager	<p>15% of the appreciation in the net asset value per unit during a performance period above the high watermark of the relevant class of units.</p> <ul style="list-style-type: none"> <li>• The high watermark is initially set at the initial issue price per unit of the relevant class of units.</li> <li>• Each performance period corresponds to the financial year of the fund.</li> <li>• In respect of each class of units, where a performance fee is payable to the Manager for a performance period, the net asset value per unit on the last valuation day of that performance period will be set as the high watermark for the next performance period.</li> <li>• For details please refer to pages 33 to 34 of the Explanatory Memorandum.</li> </ul>



## Fees to QRMO

The Manager has appointed Quality Risk Management & Operations (“QRMO”), a third party service provider, to perform independent risk monitoring, middle-office and back-office services in respect of the fund.

QRMO will be paid:

- up to 0.05% per annum of the gross asset value of the fund, subject to a minimum monthly fee of HK\$20,000 per month; and
- an inception fee of HK\$16,000 and certain transaction and processing fees.

## Other fees

You may have to pay other fees when dealing in the units of the fund.

- \* You should note that some fees may be increased, up to a specified permitted maximum, by giving Unitholders at least one month’s prior notice. For details please refer to pages 31 to 35 of the Explanatory Memorandum.

## Additional information

- You generally buy and redeem units at the fund’s next-determined net asset value (NAV) after BOCI-Prudential Trustee Limited receives your request, directly or via a distributor, in good order at or before 4:00p.m., being the fund’s dealing cut-off time on each dealing day of the fund. Before placing your subscription or redemption orders, please check with your distributor for the distributor’s internal dealing cut-off time (which may be earlier than the fund’s dealing cut-off time).
- The net asset value of this fund is calculated and the price of units published each business day on the website [www.zealasset.com](http://www.zealasset.com) (this website has not been reviewed by the SFC).
- You may obtain the past performance information of other unit classes offered to Hong Kong investors on the website [www.zealasset.com](http://www.zealasset.com) (this website has not been reviewed by the SFC).

## Important

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

**CONTENTS**

IMPORTANT INFORMATION FOR INVESTORS	3
DIRECTORY	7
DEFINITIONS	8
INTRODUCTION	11
MANAGEMENT OF THE FUND	11
The Management Company	11
Trustee, Administrator and Registrar	11
Custodian	12
INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS	13
Investment objective	13
Investment strategy	13
Investment restrictions	14
Borrowing restrictions	17
Securities Lending, Sale and Repurchase or Reverse Repurchase Transactions	17
Financial Derivative Instruments	17
Collateral	19
Stock Connect	20
SUBSCRIPTION OF UNITS	23
Classes of Units	23
Investment minima	23
Initial issue of Units	24
Subsequent issue of Units	24
Application Procedure	24
Payment Procedure	25
General	25
REDEMPTION OF UNITS	26
Redemption Procedure	26
Payment of Redemption Proceeds	26
Restrictions on Redemption	27
CONVERSION	28

VALUATION	29
Suspension of Calculation of Net Asset Value	30
Publication of Net Asset Value	31
EXPENSES AND CHARGES	31
Fees Payable by Unitholders	31
Fees Payable by the Fund	32
Cash Rebates and Soft Commissions	35
RISK FACTORS	36
TAXATION	49
Hong Kong Taxation	50
Mainland China Taxation	50
GENERAL	54
Reports and Accounts	54
Distribution Policy	55
Meetings of Unitholders	56
Transfer of Units	56
Trust Deed	56
Auditors	57
Termination of the Fund	57
Documents Available for Inspection	57
Anti-Money Laundering Regulations	57
Liquidity risk management	58
Conflicts of Interest	58

## **IMPORTANT INFORMATION FOR INVESTORS**

**Important – If you are in any doubt about the contents of this Explanatory Memorandum, you should consult your stockbroker, bank manager, accountant, solicitor or other independent financial adviser.**

ZEAL Voyage China Fund 行健宏揚中國基金 (the “Fund”) is a unit trust established under the laws of Hong Kong by a trust deed dated 25 August 2010 between Zeal Asset Management Limited 行健資產管理有限公司 as manager (the “Manager”) and Cititrust Limited (as the previous trustee of the Fund), as amended and restated from time to time. By way of a deed of retirement and appointment, the Manager has appointed BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 as the new trustee of the Fund (the “Trustee”) with effect from 27 July 2015 (the “Deed of Retirement and Appointment”). This Explanatory Memorandum comprises information relating to the Fund.

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

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

The Fund has been authorised by the Securities and Futures Commission in Hong Kong (the “SFC”) under Section 104 of the Securities and Futures Ordinance of Hong Kong. SFC authorisation is not a recommendation or endorsement of the Fund nor does it guarantee the commercial merits of the Fund or its performance. It does not mean the Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

No action has been taken in any jurisdiction (other than Hong Kong or as otherwise specified below) that would permit an offering of the Units or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Units in any other country or jurisdiction where action for the purpose is required. This Explanatory Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation.

### Mainland-Hong Kong Mutual Recognition of Funds

The Fund has been authorised by the China Securities Regulatory Commission and is offered to retail investors in the PRC under the Mainland-Hong Kong Mutual Recognition of Funds regime. The Manager may issue Class RMB (hedged) Units of the Fund to retail investors in the PRC subject to applicable laws and regulations.

### Distribution of this Explanatory Memorandum in the European Economic Area (“EEA”) and the United Kingdom

As at the date of this Explanatory Memorandum, the Fund has been notified, registered or approved (as the case may be and howsoever described) in accordance with the local law/regulations implementing the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (the “AIFMD”) for marketing to professional investors into:

- the following member states of the EEA (each a “Member State”): the Netherlands; and
  - the United Kingdom
- (each a “Relevant State”)

In relation to other Member State(s), this Explanatory Memorandum may only be distributed and Units may only be offered or placed in a Member State to the extent that: (i) at the investor’s own initiative; or (ii) to the extent that this Explanatory Memorandum may otherwise be lawfully distributed and the Units may lawfully be offered or placed in that Member State.

In addition, the following applies to the distribution of this Explanatory Memorandum in the Relevant State(s) identified below, to the extent that such distribution constitutes “marketing” for the purposes of the AIFMD:

United Kingdom: This Explanatory Memorandum is being issued in the United Kingdom by the Fund to and/or is directed only at persons who are professional investors for the purposes of the Alternative Investment Fund Managers Regulations 2013, as amended, and is accordingly exempt from the financial promotion restriction in Section 21 of the Financial Services and Markets Act 2000 (“FSMA”) in accordance with article 29(3) of the FSMA (Financial Promotions) Order 2005. The opportunity to invest in the Fund is only available to such persons in the United Kingdom and this Explanatory Memorandum must not be relied or acted upon by any other persons in the United Kingdom.

### Distribution of this Explanatory Memorandum outside the EEA and the United Kingdom

Israel: This Explanatory Memorandum has not been approved by the Israel Securities Authority and will only be distributed to Israeli residents in a manner that will not constitute “an offer to the public” under sections 15 and 15A of the Israel Securities Law, 5728-1968 (“the Securities Law”) or section 25 of the Joint Investment Trusts Law, 5754-1994 (“the Joint Investment Trusts Law”), as applicable. The Fund is being offered to a limited number of investors (35 investors or fewer during any given 12 month period) and/or those categories of investors listed in section 15A(b) of and/or the First Addendum (“the Addendum”) to the Securities Law, (“Sophisticated Investors”) namely joint investment funds or mutual trust funds, provident funds, insurance companies, banking corporations (purchasing the Fund for themselves or for clients who are Sophisticated Investors), portfolio managers (purchasing the Fund for themselves or for clients who are Sophisticated Investors), investment advisors or investment marketers (purchasing the Fund for themselves), members of the Tel-Aviv Stock Exchange (purchasing the Fund for themselves or for clients who are Sophisticated Investors), underwriters (purchasing the Fund for themselves), venture capital funds engaging mainly in the capital market, an entity which is wholly-owned by Sophisticated Investors, corporations, (other than formed for the specific purpose of an acquisition pursuant to an offer), with a shareholders equity in excess of NIS 50 million, and individuals investing for their own account, in respect of which at least one of the following applies: the total value of their cash, deposits, financial assets (as defined in the Investment Advice Law) and securities traded on a stock exchange licensed under the Securities Law (together, “Liquid Assets”) exceeds NIS 8,094,444; their level of income over each of the preceding two years exceeds NIS 1,214,317, or the level of income of their “family unit”

exceeds NIS 1,821,475; or the aggregate value of all their Liquid Assets exceeds NIS 5,059,652 and their level of income over each of the preceding two years exceeds NIS 607,158, or the level of income of their "family unit" exceeds NIS 910,737; each as defined in the said Addendum, as amended from time to time, and who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto; in all cases under circumstances that will fall within the private placement or other exemptions of the Joint Investment Trusts Law, the Securities Law and any applicable guidelines, pronouncements or rulings issued from time to time by the Israel Securities Authority.

This Explanatory Memorandum may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Any offeree who purchases a Fund is purchasing such Fund for its own benefit and account and not with the aim or intention of distributing or offering such Fund to other parties (other than, in the case of an offeree which is a Sophisticated Investor by virtue of it being a banking corporation, portfolio manager or member of the Tel-Aviv Stock Exchange, as defined in the Addendum, where such offeree is purchasing the Fund for another party which is a Sophisticated Investor).

Nothing in this Explanatory Memorandum should be considered investment advice or investment marketing as defined in the Regulation of Investment Counselling, Investment Marketing and Portfolio Management Law, 5755-1995 ("the Investment Advice Law").

Investors are encouraged to seek competent investment counselling from a locally licensed investment counsel prior to making the investment. The Manager does not hold a licence under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder. As a prerequisite to the receipt of a copy of this Explanatory Memorandum a recipient may be required by the Fund to provide confirmation that it is a Sophisticated Investor purchasing the Fund for its own account or, where applicable, for other Sophisticated Investors.

This Explanatory Memorandum does not constitute an offer to sell or solicitation of an offer to buy any securities other than the Units offered hereby, nor does it constitute an offer to sell to or solicitation of an offer to buy from any person or persons in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person or persons to whom it is unlawful to make such offer or solicitation.

Singapore: The offer or invitation of the Units, which is the subject of this Explanatory Memorandum, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") or recognised under section 287 of the SFA. The Fund is not authorised or recognised by the Monetary Authority of Singapore (the "MAS") and Units are not allowed to be offered to the retail public. Each of this Explanatory Memorandum and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you.

This Explanatory Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Explanatory Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Units may not be circulated or distributed, nor may Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Units are subscribed or purchased under Section 305 by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Units pursuant to an offer made under Section 305 except:

- (1) to an institutional investor or to a relevant person defined in Section 305(5) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 305A (3) (i) (B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 305A(5) of the SFA; or
- (5) as specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

### Switzerland

The distribution of Units in Switzerland will be exclusively made to, and directed at, qualified investors (the "Qualified Investors"), as defined in the Swiss Collective Investment Schemes Act of 23 June 2006, as amended ("CISA") and its implementing ordinance. Accordingly, the Fund has not been and will not be registered with the Swiss Financial Market Supervisory Authority (FINMA). This Explanatory Memorandum and/or any other offering materials relating to the Units may be made available in Switzerland solely to Qualified Investors.

### United States

- (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 U.S. Person (as defined in Regulation S under such Act); and
- (b) The Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended).

The information given in this Explanatory Memorandum is provided for guidance only. Prospective applicants for the Units should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Any investor enquiries or complaints should be submitted in writing to the Manager's office (at Unit 1006A, 10/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong) and the Manager will issue a response within 10 Business Days of receipt of the enquiry or complaint.

**DIRECTORY**

<b>Manager</b>	Zeal Asset Management Limited 行健資產管理有限公司 Unit 1006A, 10/F Bank of America Tower 12 Harcourt Road Central Hong Kong  Telephone No.: +852 3626 9700 Fax No.: +852 3626 9736
<b>Directors of the Manager</b>	CHOI Nga Chung NGAN Wai Wah POON Chun Pong Daniel
<b>Trustee, Administrator and Registrar</b>	BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 Suites 1501-1507 & 1513-1516, 15/F 1111 King's Road Taikoo Shing Hong Kong
<b>Custodian</b>	Bank of China (Hong Kong) Limited 中國銀行(香港)有限公司 14/F, Bank of China Tower 1 Garden Road Central Hong Kong
<b>Legal Counsel to the Manager</b>	Simmons & Simmons 30/F, One Taikoo Place 979 King's Road Hong Kong
<b>Auditors</b>	Ernst & Young 27/F, One Taikoo Place Taikoo Place 979 King's Road Quarry Bay Hong Kong



## **DEFINITIONS**

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

<b>“Access Products”</b>	means an access product, being a security (such as a note, warrant, option or participation certificate) or a swap agreement linked to a share or portfolios of shares which aims to synthetically replicate the economic performance of the underlying share or portfolios of shares;
<b>“Administrator”</b>	means BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司, acting in its capacity as administrator of the Fund;
<b>“AUD” or “Australian dollar”</b>	means the currency of Australia;
<b>“AUD (hedged) Units”</b>	means Units issued as “AUD (hedged) Units” and comprising a Class the Class Currency of which is Australian dollars;
<b>“Base Currency”</b>	means, in respect of the Fund, the Hong Kong dollar;
<b>“Business Day”</b>	means a day (other than a Saturday or Sunday) on which banks in Hong Kong are open for normal banking business or such other day or days as the Manager and the Trustee may agree from time to time, provided that where as a result of a number 8 typhoon signal, black rainstorm warning or other similar event, the period during which banks in Hong Kong are open on any day is reduced, such day will not be a Business Day unless the Manager and the Trustee determine otherwise;
<b>“China” or “PRC”</b>	means the People’s Republic of China;
<b>“Class”</b>	means a class of Units of the Fund;
<b>“Class Currency”</b>	means the currency of denomination of a Class;
<b>“Code”</b>	means the Code on Unit Trusts and Mutual Funds issued by the SFC (as amended, or replaced, from time to time);
<b>“Connected Person”</b>	in relation to a company means: <ol style="list-style-type: none"> <li>(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</li> <li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or</li> <li>(c) any member of the group of which that company forms part; or</li> <li>(d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c);</li> </ol>
<b>“Custodian”</b>	means Bank of China (Hong Kong) Limited 中國銀行(香港)有限公司, acting in its capacity as custodian of the investments and uninvested cash of the Fund;

<b>“Dealing Day”</b>	means: (a) each Business Day, except any Business Day, determined at the Manager’s discretion, on which any exchange or market on which a substantial portion of the Fund’s investments is traded is closed or on which dealings are restricted or suspended; or (b) such other day as the Manager may determine from time to time with the approval of the Trustee;
<b>“Dealing Deadline”</b>	means 4:00 pm (Hong Kong time) on the relevant Dealing Day;
<b>“entities within the same group”</b>	means entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards;
<b>“Fund”</b>	means ZEAL Voyage China Fund;
<b>“Government and other Public Securities”</b>	has the meaning as set out in the Code which at the date of the main body of this Explanatory Memorandum means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies;
<b>“HKD” or “Hong Kong Dollars”</b>	means the currency of Hong Kong;
<b>“HKD (dist) Units”</b>	means Units issued as “HKD (dist) Units” and comprising a Class the Class Currency of which is Hong Kong dollars;
<b>“HKD Units”</b>	means Units issued as “HKD Units” and comprising a Class the Class Currency of which is Hong Kong dollars;
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the People’s Republic of China;
<b>“IFRS”</b>	International Financial Reporting Standards issued by the International Accounting Standards Board;
<b>“Initial Offer Period”</b>	in respect of each Class, means the period during which Units of that Class are offered for subscription at a fixed price, details of which are set out in the section headed “Subscription of Units” below;
<b>“Manager”</b>	means Zeal Asset Management Limited 行健資產管理有限公司;
<b>“Mainland China”</b>	all customs territories of the PRC, excluding for the purposes of interpretation of this Explanatory Memorandum only, Hong Kong, the Macau Special Administrative Region and Taiwan;
<b>“Net Asset Value”</b>	means the net asset value of the Fund, of a Class or of a Unit, as the context may require, calculated in accordance with the provisions of the Trust Deed as summarised below under the section headed “Valuation” below;
<b>“RMB” or “Renminbi”</b>	means the Renminbi Yuan, the currency of the PRC;
<b>“RMB (hedged) Units”</b>	means Units issued as “RMB (hedged) Units” and comprising a Class the Class Currency of which is Renminbi;

<b>“Registrar”</b>	means BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司;
<b>“SFC”</b>	means the Securities and Futures Commission of Hong Kong;
<b>“SFO”</b>	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
<b>“Shanghai-Hong Kong Stock Connect”</b>	means the securities trading and clearing links programme developed by the Hong Kong Exchanges and Clearing Limited, Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited, for mutual market access between Mainland China and Hong Kong;
<b>“Shenzhen-Hong Kong Stock Connect”</b>	means the securities trading and clearing links programme developed by the Hong Kong Exchanges and Clearing Limited, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation Limited, for mutual market access between Mainland China and Hong Kong;
<b>“SSE”</b>	means the Shanghai Stock Exchange;
<b>“Stock Connect”</b>	means the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect;
<b>“Subscription Price”</b>	means the price at which Units are issued as described in the section headed “Subscription of Units” below;
<b>“SZSE”</b>	means the Shenzhen Stock Exchange;
<b>“Trust Deed”</b>	means the trust deed establishing the Fund entered into by the Manager and the Trustee dated 25 August 2010, and as amended and restated from time to time;
<b>“Trustee”</b>	means BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司;
<b>“Unit”</b>	means a unit in a Class representing a certain number or fraction of undivided shares in the Fund, and, except where used in relation to a particular Class, a reference to Units means and includes Units of all Classes;
<b>“Unitholder”</b>	means a person registered as a holder of a Unit;
<b>“Unit Redemption Price”</b>	means the price at which Units will be redeemed as described in the section headed “Payment of Redemption Proceeds” below;
<b>“US Dollars” or “USD”</b>	means the currency of the United States of America;
<b>“USD Units”</b>	means Units issued as “USD Units” and comprising a Class the Class Currency of which is US Dollars
<b>“Valuation Day”</b>	means each Dealing Day;
<b>“Valuation Point”</b>	means the latest of the closing times of the respective markets on the relevant Valuation Day or such other time as the Manager, with the approval of the Trustee, may from time to time determine to calculate the Net Asset Value.

## **INTRODUCTION**

ZEAL Voyage China Fund is an open-ended unit trust established under the laws of Hong Kong pursuant to a Trust Deed dated 25 August 2010, as amended from time to time. All Unitholders are entitled to the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.

As at the date of this document, five classes of Units are being offered in relation to the Fund. Additional classes of Units may be created in the future.

Information relating to the Fund, including the latest versions of the Fund's offering documentation, circulars, notices, announcements, financial reports, the latest available Subscription Price and Unit Redemption Price and Net Asset Value are available on the website [www.zealasset.com](http://www.zealasset.com) (this website does not form part of this Explanatory Memorandum and this website has not been reviewed by the SFC).

## **MANAGEMENT OF THE FUND**

### **The Management Company**

The Manager of the Fund is Zeal Asset Management Limited 行健資產管理有限公司.

The Manager was incorporated in Hong Kong on 13 August 2009. The Manager is licensed for type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities by the SFC under the SFO with CE number ATR821.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Fund. The Manager is also responsible, in conjunction with the Trustee, for the maintenance of the accounts and records of the Fund as well as certain other administrative matters relating to the Fund.

The Manager may appoint sub-managers or investment advisers in relation to the Fund, subject to the approval of the SFC. The Manager is not intending to appoint a sub-manager or investment adviser in relation to the Fund.

The directors of the Manager are Choi Nga Chung, Ngan Wai Wah and Poon Chun Pong Daniel.

### **Trustee, Administrator and Registrar**

BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 is the Trustee of the Fund.

The Trustee is incorporated and registered as a trust company in Hong Kong. The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited. BOC Group Trustee Company Limited is owned by Bank of China (Hong Kong) Limited and BOC International Holdings Limited, which are subsidiaries of Bank of China Limited. The principal activity of the Trustee is the 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 the assets of the Fund. The Trustee may appoint any person or persons (including a Connected Person of the Trustee) as custodian, nominee, agent or delegate of the Trustee, to hold all or any of the assets of the Fund, and may empower any such person to appoint, with the prior consent in writing of the Trustee, co-custodians, sub-custodians and/or delegates (each such custodian, nominee, agent, co-custodian, sub-custodian, and delegate a "Correspondent"). The Trustee shall (a) exercise reasonable care, skill and diligence in the selection,

appointment and ongoing monitoring of such Correspondent; (b) be satisfied that such Correspondent remains suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the Fund; and (c) be liable 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 act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee.

The Trustee also acts as the Registrar of the Fund, in which capacity it will be responsible, inter alia, for maintaining the register of Unitholders and processing subscriptions and redemptions of Units.

In its capacity as Administrator, BOCI-Prudential Trustee Limited 中銀國際英國保誠信託有限公司 is responsible for certain financial, administrative and other services to the Fund, including:

- determining the Net Asset Value and the Net Asset Value per Unit;
- preparing and maintaining the Fund's financial and accounting records and statements; and
- assisting in preparing the financial statements of the Fund.

The Trustee is not responsible for the preparation of this Explanatory Memorandum and therefore accepts no responsibility for the information contained in it, other than information relating specifically to the Trustee and its affiliates.

### **Custodian**

Bank of China (Hong Kong) Limited ("BOCHK") has been appointed as the custodian of the Fund.

BOCHK 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 IPO, 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.

With an extensive network of branches and ATMs locally, servicing more than 600,000 corporates and 2 million retail customers, BOCHK is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund-related services for institutional clients. It is also present in most of the southeast Asian countries.

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

**INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS****Investment objective**

The investment objective of the Fund is to generate long-term capital appreciation by primarily investing in listed equities with a China focus. There can be no assurance that the Fund will achieve its investment objective.

**Investment strategy**

The Fund seeks to achieve its investment objective primarily through exposure to companies established in China or which derive a significant proportion of their revenue from business related to China, whether in the form of direct investment in, or trade with, China. The Fund may also invest in companies incorporated elsewhere that have significant assets, business, production, trading activity or other interests in China.

The Fund obtains investment exposure to such companies primarily through investing in securities listed on The Stock Exchange of Hong Kong, the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange. Generally, the asset allocation strategy is that at least 70% of the Fund's non-cash assets will be invested in securities listed on The Hong Kong Stock Exchange, and 0% to 20% will be invested directly and/or indirectly in securities listed on the Shanghai Stock Exchange and/or the Shenzhen Stock Exchange. In addition, at least 80% of the Fund's Net Asset Value will be invested in securities and other investments relating to China.

The Fund makes investments into companies that, in the Manager's opinion, have been undervalued by the market due to various reasons such as lack of research coverage and misunderstanding of the fundamentals. The Fund does not attempt to follow any benchmark indices in determining its sector or individual stock weightings and there is no fixed sector weightings in the allocation of assets of the Fund.

The Fund's exposure to domestic Mainland Chinese securities comprises A-shares and/or B-shares listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The Fund's investment in A-shares and B-shares will be in accordance with applicable regulations which may change from time to time. Exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure, such as through investing in exchange traded funds ("ETFs"), other funds that invest in the relevant Mainland China listed shares, and/or derivative instruments (such as participatory notes, futures, options), and direct exposure (in the case of A-shares, such as via the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and/or other relevant programmes when such other programmes become available). Please refer to the sub-section headed "Stock Connect" below for further information on this programme.

Investments in ETFs by the Fund are considered and treated as listed securities for the purposes of and subject to the requirements in Chapters 7.1, 7.1A and 7.2 of the Code.

Subject always to the investment restrictions described below and in the Trust Deed, the Fund has flexibility to invest in a wide range of instruments including, but not limited to, equities, convertible securities, equity-related instruments, debt securities and obligations, collective investment schemes, commodities, futures, options, warrants, swaps and other derivative instruments. Derivative instruments may be exchange-traded or over-the-counter and may be used for hedging and/or investment purposes (notwithstanding this, derivatives will not be extensively or primarily used for investment purposes). The derivative instruments used by the Fund for investment purpose will broadly fall under two categories: (i) derivative instruments which do not create any leveraged effect and used primarily for accessing a restricted market such as the A-share market, including, without limitation, Access Products and participatory notes; and (ii) other types of derivatives which create a leveraged effect, including, without limitation, exchange-traded or over-the-counter options and futures.

The Fund may engage in short sales and may pledge assets of the Fund as collateral in respect of such short sales. The Fund may retain amounts in cash or cash equivalents (including money market funds) pending reinvestment, for use as collateral or as otherwise considered appropriate to the investment objective.

The Fund may take short positions through derivatives for hedging purposes only.

The Manager generally seeks to hedge the foreign currency exposure of any hedged Class to the Base Currency, with the aim of reducing the impact of currency fluctuations of the relevant Class Currency against the Base Currency. The extent of hedging will be determined by the Manager based on its view on the relevant Class Currency and may vary from time to time. The effects of hedging will be reflected in the Net Asset Value per Unit of the relevant hedged Class. Similarly, any expenses arising from such hedging transactions will be borne by the relevant hedged Class. There is no assurance that the hedging techniques employed by the Manager will be effective.

Should there be any change in the above policy, where necessary, the SFC's prior approval will be sought and prior notice will be given to Unitholders before such change takes effect.

### Investment restrictions

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

Unless otherwise approved by the SFC, the following principal investment restrictions apply to the Fund:

- (a) the aggregate value of the Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of the Fund:
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of financial derivative instrument ("FDI"); and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the Net Asset Value of the Fund:
  - (1) investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) unless otherwise approved by the SFC, the value of the Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the Net Asset Value of the Fund, unless:
  - (1) the cash is held before the launch of the Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested, or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Fund, whereby the placing of cash deposits with various financial institutions would not be in the best interest of investors; or

- (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;
- (d) ordinary shares issued by a single entity held for the account of the Fund may not exceed 10% of the nominal amount of the ordinary shares issued by a single entity;
- (e) not more than 15% of the total Net Asset Value of the Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (f) notwithstanding (a), (b) and (d), not more than 30% of the total Net Asset Value of the Fund may be invested in Government and other Public Securities of the same issue;
- (g) subject to (f), the Fund may fully invest in Government and other Public Securities in at least six different issues;
- (h) unless otherwise approved by the SFC, the Fund may not invest in physical commodities;
- (i) for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC; or
  - (2) 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 Chapter 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (x) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (y) collective investment schemes for the purposes of and subject to the requirements in paragraph (j) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and the relevant investment limits in exchange traded funds by the Fund should be consistently applied and clearly disclosed in this Explanatory Memorandum;
- (j) where the Fund invests in shares or units of other collective investment schemes ("underlying schemes"),
  - (1) the value of the Fund's investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC, may not in aggregate exceed 10% of the total Net Asset Value of the Fund; and
  - (2) the Fund may invest in one or more underlying schemes which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Fund's investment in units or shares in each such underlying scheme may not exceed 30% of the total Net Asset Value of the Fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the Explanatory Memorandum of the Fund,



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

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that 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 prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (i) above in compliance with paragraph (j)(1) and (j)(2);
  - (ii) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;
  - (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
  - (iv) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and
  - (v) the Manager or any person acting on behalf of the Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of an underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme; and
- (k) if the name of the Fund indicates a particular objective, investment strategy, geographic region or market, the Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Fund represents.

The Fund shall not:

- (a) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager collectively own more than 5% of those securities;
- (b) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs), and in the case of investments in such shares and REITs, they shall comply with the investment restrictions and limitations set out in paragraphs (a), (b), (d), (e) and (j) above, where applicable (for the avoidance of doubt, where investments are made in listed REITs, paragraphs (a), (b) and (d) apply and where investments are made in unlisted REITs which are either companies or collective investment schemes, then paragraphs (e) and (j) apply respectively);
- (c) make short sales if as a result the Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted);

- (d) subject to Chapter 7.3 of the Code, lend or make a loan out of the assets of the Fund, except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (e) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (f) acquire any asset or engage in any transaction for the account of the Fund which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the Fund; or
- (g) apply any part of the Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapter 7.29 and 7.30 of the Code.

### **Borrowing restrictions**

The maximum borrowing of the Fund shall not exceed 10% of its latest available Net Asset Value. The Trustee may, at the request of the Manager, borrow for the account of the Fund any currency, and charge or pledge assets of the Fund, for the following purposes:

- (a) facilitating the creation or redemption of Units or defraying operating expenses;
- (b) enabling the Manager to acquire Securities for the account of the Fund; or
- (c) for any other proper purpose as may be agreed by the Manager and the Trustee (except to enhance the performance of the Fund).

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

The Trust Deed provides that the Trustee may at the request of the Manager enter into securities lending, sale and repurchase and reverse repurchase transactions in respect of the Fund. However, it is not the current intention of the Manager that such transactions will be entered into. Should the Manager decide to enter into such arrangements in the future, this Explanatory Memorandum will be amended to provide details of the arrangements and Unitholders will be provided with not less than one month's prior written notice of the amendment.

### **Financial Derivative Instruments**

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of the Fund enter into any transactions in relation to swaps or other FDIs, for hedging or non-hedging (investment) purposes.

The Fund may acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purpose if they meet all of 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 of risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

Hedging arrangement should be adjusted or re-positioned, where necessary and with due consideration on the fees, expenses and costs, to enable the Fund to meet its hedging objective in stressed or extreme market conditions.

The Fund may acquire FDIs for non-hedging purposes ("investment purposes"), subject to the limit that the Fund's net exposure relating to these FDIs ("net derivative exposure") does not exceed 50% of its total Net Asset Value (unless otherwise approved by the SFC). For the avoidance of doubt:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the position;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

Subject to 7.26 and 7.28 of the Code, the Fund may invest in FDIs provided that the exposure to the underlying assets of the FDI, together with the other investments of the Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets and investments as set out in the relevant provisions of Chapter 7 of the Code.

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

- (a) the underlying assets consist solely of shares in companies, debt securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates, currencies or other asset classes acceptable to the SFC, in which the Fund may invest according to its investment objectives and policies;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions;
- (c) subject to paragraphs (a) and (b) under the section entitled "Investment Restrictions" above, the net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of the Fund; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominees, agents or delegates independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting

transaction at any time at their fair value at the initiative of the Fund. Further, the calculation agent/fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the FDIs on a regular basis.

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

- in the case of FDI transactions which will, or may at the Fund's discretion, be cash settled, the Fund should at all times hold sufficient assets that can be liquidated within a short timeframe to meet the payment obligation; and
- in the case of FDI transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the Fund should hold the underlying assets in sufficient quantity at all times to meet the delivery obligation. If the Manager considers the underlying assets to be liquid and tradable, the 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. In the case of holding alternative assets as cover, the Fund should apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

The above policies relating to FDIs apply to financial instruments which embed financial derivatives as well.

### **Collateral**

For the avoidance of doubt, there is no current intention for the Fund to receive collateral from counterparties.

Collateral received from counterparties shall comply with the following requirements:

- Asset type – eligible collateral include cash, government bonds, supranational bonds, corporate bonds, stocks, funds and money market instruments;
- Maturity – the maturity of the collateral is not a decisive criterion;
- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation;
- Country of origin – collateral, including government bonds, must be issued by issuers incorporated in countries with a minimum credit rating of investment grade (i.e. BBB– or above by Standard and Poor's or Fitch, Baa3 or above by Moody's or equivalent ratings by other internationally recognised rating agencies and/or PRC credit rating agencies);
- Credit rating – issuers of collateral in the form of corporate bonds are expected to have a minimum credit rating of with a minimum credit rating of investment grade (i.e. BBB– or above by Standard and Poor's or Fitch, Baa3 or above by Moody's or equivalent ratings by other internationally recognised rating agencies and/or PRC credit rating agencies);
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets;

- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Fund’s exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapter 7 of the Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs in such a way that would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs. Collateral may be subject to netting or set off;
- Reinvestment of cash collateral – cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged. 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. The portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2(f) and (n) of the Code. Cash collateral received is not allowed to be further engaged in any securities financing transactions. 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;
- Encumbrances – collateral should be free of prior encumbrances; and
- Collateral should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes.

### Stock Connect

The Stock Connect is a securities trading and clearing links programme developed by the Hong Kong Exchanges and Clearing Limited (the “HKE”), the SSE, the SZSE and the China Securities Depository and Clearing Co., Ltd. (the “CSDCC”), which provides mutual stock market access between Mainland China and Hong Kong. It comprises the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Each of the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect comprises a northbound trading link (the “Northbound Trading Link”) for investment in Mainland China shares (“Northbound Trading”) and a southbound trading link (the “Southbound Trading Link”) for investment in Hong Kong shares (“Southbound Trading”). Under the Northbound Trading Link, Hong Kong and overseas investors (including the Fund), through their Hong Kong brokers and securities trading service companies

(in Shanghai and in Qianhai Shenzhen respectively) established by the Hong Kong Stock Exchange (the “SEHK”), may trade eligible shares listed on the SSE or the SZSE by routing orders to the SSE or SZSE (as the case may be).

### *Eligible securities*

Initially, Hong Kong and overseas investors are only able to trade certain stocks listed on the SSE market (the “SSE Securities”) and the SZSE market (the “SZSE Securities”). SSE Securities include all the constituent stocks from time to time of the SSE 180 Index and SSE 380 Index, and all the SSE-listed A-Shares that are not included as constituent stocks of the relevant indices but which have corresponding H-shares listed on the SEHK, except the following:

- (a) SSE-listed shares which are not traded in RMB; and
- (b) SSE-listed shares which are included in the “risk alert board”.

SZSE Securities will include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index which have a market capitalisation of not less than RMB 6 billion, and all the SZSE-listed A shares which have corresponding H shares listed on SEHK, except the following:

- (a) SZSE-listed shares which are not traded in RMB; and
- (b) SZSE-listed shares which are included in the “risk alert board”.

At the initial stage of Shenzhen-Hong Kong Stock Connect, shares listed on the ChiNext Board of SZSE under Northbound Trading Link will be limited to institutional professional investors. Subject to resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

It is expected that the list of eligible securities will be subject to review in future.

### *Trading day*

Investors (including the Fund) can only trade on the other market on days where both markets are open for trading, and banking services are available in both markets on the corresponding settlement days.

### *Trading quota*

Trading under the Stock Connect is subject to a daily quota (“Daily Quota”) for each of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, which is separate for Northbound and Southbound Trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Fund and are utilised on a first-come-first-serve basis. The SEHK monitors the quota and publishes the remaining balance of the Northbound Trading Daily Quota at scheduled times on the HKEx’s website. The Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

### *Settlement and custody*

The Hong Kong Securities Clearing Company Limited (the “HKSCC”) is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors. SSE Securities or SZSE Securities acquired by an investor through Northbound Trading is maintained with such investor’s broker’s or custodian’s stock account with the Central Clearing and Settlement System (“CCASS”) operated by HKSCC.

### *Corporate actions and shareholders' meetings*

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities or SZSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE or SZSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities or SZSE Securities. The HKSCC monitors the corporate actions affecting SSE Securities or SZSE Securities and keeps the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

### *Currency*

Hong Kong and overseas investors (including the Fund) can trade and settle SSE Securities and SZSE Securities in RMB only.

### *Trading fees*

In addition to paying trading fees and stamp duties in connection with A-share trading, the Fund may be subject to certain other fees which are yet to be determined by the relevant authorities.

### *Coverage of Investor Compensation Fund*

Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Examples of default are insolvency, in bankruptcy or winding up, breach of trust, defalcation, fraud, or misfeasance.

Starting from 1 January 2020, defaults in relation to Northbound Trading will be covered by the Hong Kong's Investor Compensation Fund. Therefore any investments in SSE Securities or SZSE Securities done by the Fund through Northbound Trading under the Stock Connect will be covered by Hong Kong's Investor Compensation Fund.

On the other hand, 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", 中國證券投資者保護基金) include "indemnifying creditors as required by China's relevant policies in case a securities company is subjected to compulsory regulatory measures including dissolution, closure, bankruptcy and administrative takeover by the China Securities Regulatory Commission ("CSRC") and custodian operation" or "other functions approved by the State Council". However, since Northbound Trading is carried out through securities brokers in Hong Kong and not Mainland China brokers, the CSIPF also does not extend to protect defaults experienced on Northbound Trading. Foreign shareholding restrictions

Pursuant to relevant rules and regulations, foreign investors holding A-shares (whether acquired through QFII/RQFII or Stock Connect) are subject to the following shareholding restrictions:

- (a) the shareholding of any single foreign investor in an A-share listed company must not exceed 10% of such company's total issued shares; and
- (b) the aggregate shareholding of all foreign investors in an A-share listed company must not exceed 30% of such company's total issued shares.

When aggregate foreign shareholding of an individual A-share listed company exceeds the 30% threshold, the foreign investors concerned will be requested to sell the relevant 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, the SEHK will

identify the exchange participant(s) concerned and require a force-sell. As a result, it is possible that the Fund may be required to unwind its positions where it has invested in an A-share listed company in respect of which the aggregate foreign shareholding threshold has been exceeded.

The SSE, SZSE and the SEHK (as the case may be) will issue warnings as the aggregate foreign shareholding of an SSE Security or SZSE Security approaches 30%. Northbound Trading buy orders will be suspended once the aggregate foreign shareholding reaches 28% and will resume when it drops back to 26%. Northbound Trading sell orders will not be affected.

When foreign investors carry out strategic investments in A-share listed companies in accordance with the relevant rules, the shareholding of such strategic investments is not capped by the above-mentioned percentages.

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

## **SUBSCRIPTION OF UNITS**

### **Classes of Units**

The Classes available for subscription in relation to the Fund are:

- AUD (hedged) Units
- HKD Units
- HKD (dist) Units
- RMB (hedged) Units
- USD Units

The Manager may in future determine to issue additional Classes.

Class RMB (hedged) Units are also available to investors in Mainland China.

### **Investment minima**

The investment minima applicable to the Fund are as follows:

	minimum initial investment	minimum subsequent investment
AUD (hedged) Units	AUD7,500	AUD150
HKD Units	HKD50,000	HKD1,000
HKD (dist) Units	HKD50,000	HKD1,000
RMB (hedged) Units	RMB50,000	RMB1,000
USD Units	USD6,500	USD130

The Manager reserves the right to waive the minimum initial investment and minimum subsequent investment requirements for any Class of Units.



### Initial issue of Units

The Initial Offer Period of the HKD Units took place between 6 September 2010 and 17 September 2010, the Initial Offer Period of the USD Units took place between 21 March 2011 and 31 March 2011 and the Initial Offer Period of the AUD (hedged) Units, HKD (dist) Units and RMB (hedged) Units took place on 30 May 2014.

### Subsequent issue of Units

Units are available for issue on each Dealing Day at the relevant Subscription Price.

In relation to a particular Class, the Subscription Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 4 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. Any rounding adjustment will be retained by the relevant Class. The Subscription Price will be calculated and quoted in the relevant Class Currency.

In determining the Subscription Price, the Manager is entitled to add an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred in investing a sum equal to the application monies. Any such additional amount will be paid to the Trustee and will form part of the assets of the relevant Class.

The Manager is entitled to impose a subscription fee on the Subscription Price of each Unit. The Manager may retain the benefit of such subscription fee or may pay all or part of the subscription fee (and any other fees received) to recognised intermediaries or such other persons as the Manager may at its absolute discretion determine. Details of the subscription fee are set out in the section headed "Expenses and Charges" below.

### Application Procedure

Applications for subscription of Units may be made to the Registrar (and/or other persons appointed by the Registrar or the Manager) by completing and sending an application form, together with the required supporting documents, by post, facsimile or other electronic means from time to time determined by the Manager and the Trustee to the Registrar (and/or other persons appointed by the Registrar or the Manager) at the business address or facsimile number specified on the application form. The Manager and/or the Registrar may request further supporting documents and/or information to be provided. The application form is available from the Manager.

Applications in respect of a particular Dealing Day must be received by the relevant Dealing Deadline and subscription monies in cleared funds, net of bank charges, must be received by no later than 4:00 pm (Hong Kong time) on the third Business Day following the relevant Dealing Day.

Application forms that are faxed to the Registrar must always be followed by their original. Applicants who choose to send an application form by fax bear the risk of the form not being received by the Registrar. Applicants should therefore, for their own benefit, confirm with the Registrar safe receipt of an application form. None of the Manager, the Trustee, the Registrar or their respective agents and delegates will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by facsimile or other electronic means, or any loss caused in respect of any action taken as a consequence of instructions sent by way of facsimile or other electronic means believed in good faith to have originated from properly authorised persons.

Upon receipt of a duly completed application form by the Dealing Deadline, Units will be issued at the relevant Subscription Price on the relevant Dealing Day. Subscription monies must be paid by the applicant in cleared funds by no later than 4:00 pm (Hong Kong time) on the third Business Day following the relevant Dealing Day. If payment in cleared funds is not received in full prior to the aforesaid time, the application may, at the discretion of the Manager, be considered void and cancelled. In such event the Manager will be entitled to charge the applicant (and retain for its own account) a cancellation fee or such amount as it may determine to represent the costs involved in processing the application. The Manager may also require the applicant to pay to the Trustee, for the account of the Fund, in respect of each Unit cancelled, the amount (if any) by which the Subscription Price on the relevant Dealing Date exceeds the applicable Unit Redemption Price on the date of cancellation.

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

Applicants may apply for Units through a distributor appointed by the Manager or a nominee company. Distributors or a nominee company may have different dealing procedures, including earlier cut-off times for receipt of applications and/or cleared funds. Applicants who intend to apply for Units through a distributor or a nominee company should consult the distributor or nominee company for details of the relevant dealing procedures.

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

**No money should be paid to any intermediary in Hong Kong who is not licensed or registered or permitted pursuant to a relevant exemption, to carry on Type 1 (dealing in securities) regulated activity under Part V of the Securities and Futures Ordinance.**

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

No applications for Units will be dealt with during any periods in which the determination of the Net Asset Value of the Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below).

### **Payment Procedure**

Subscription monies should be paid in the relevant Class Currency. Where subscription monies are paid in a currency other than the relevant Class Currency, they will be converted into the relevant Class Currency at the discretion of the Manager and the cost of currency conversion will be deducted from such subscription monies before being applied in subscribing for Units at the relevant Subscription Price. Payment details are set out in the application form.

### **General**

All holdings of Units will be in registered form and certificates will not be issued. Evidence of title of Units will be the entry on the register of Unitholders. Unitholders should therefore be aware of the importance

of ensuring that the Registrar is informed of any change to the registered details. Fractions of Units may be issued calculated to 4 decimal places. Subscription monies representing smaller fractions of a Unit will be retained by the Fund. A maximum of 4 persons may be registered as joint Unitholders.

## **REDEMPTION OF UNITS**

### **Redemption Procedure**

Unitholders who wish to redeem their Units in the Fund may do so on any Dealing Day by submitting a redemption form to the Registrar (and/or other persons appointed by the Registrar or the Manager). Any redemption form must be received by the Registrar (and/or other persons appointed by the Registrar or the Manager) before the Dealing Deadline. Investors redeeming Units through a distributor or a nominee should submit their redemption requests to the distributor or nominee in such manner as directed by the distributor or nominee. Distributors and nominees may have different dealing procedures, including earlier cut-off times for receipt of redemption requests. Where an investor holds its investment in Units through a nominee, the investor wishing to redeem Units must ensure that the nominee, as the registered Unitholder, submits the relevant redemption form by the Dealing Deadline. Redemption forms submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

Application for redemption of Units may be made to the Registrar (and/or other persons appointed by the Registrar or the Manager) by completing and sending a redemption form by post, facsimile or other electronic means from time to time determined by the Manager and the Trustee to the Registrar (and/or other persons appointed by the Registrar or the Manager) at the business address or facsimile number specified on the redemption form. If requested by the Manager and/or Registrar, further supporting documents and/or information may be required to be provided. The redemption form is available from the Manager. The redemption form must specify the value or number and Class of Units to be redeemed, the name(s) of the registered holder(s) and give payment instructions for the redemption proceeds. Unless otherwise agreed by the Trustee, the original of any redemption request given by facsimile should be forwarded to the Registrar. None of the Manager, the Trustee or the Registrar or their respective agents and delegates will be responsible to a Unitholder for any loss resulting from non-receipt or illegibility of any redemption request sent by facsimile or other electronic means or for any loss caused in respect of any action taken as a consequence of instructions sent by way of facsimile or other electronic means believed in good faith to have originated from properly authorised persons.

A partial redemption of a holding of Units in the Fund may be effected provided that such redemption will not result in the Unitholder holding less than the minimum holding of Units of a Class, which is the lesser of 50,000 Units of that Class or Units of that Class with an aggregate Net Asset Value of HKD50,000 (or its equivalent in another currency). The Manager has the right to compulsorily redeem any holding of Units which is less than such minimum holding. The Manager may, in its absolute discretion, waive the requirement for such minimum holding of Units of any Class, whether generally or in any particular case. A request for a partial redemption which is in aggregate less than 1,000 Units on each Dealing Day will not be accepted, unless the Manager, in its absolute discretion, waives such requirement.

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

### **Payment of Redemption Proceeds**

In relation to a particular Class, the Unit Redemption Price on any Dealing Day will be the price per Unit ascertained by dividing the Net Asset Value of the relevant Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Units of such Class then in issue and rounded to 4 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. Any rounding adjustment will be retained by the relevant Class. The Unit Redemption Price will be calculated and quoted in the relevant Class Currency.

In determining the Unit Redemption Price, the Manager is entitled to deduct an amount which it considers represents an appropriate provision for extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees and registration fees, which are likely to be incurred by the Fund. Any such deducted amount will be retained by the Fund and will form part of the assets of the relevant Class.

Redemption proceeds will not be paid to any redeeming Unitholder until (a) unless otherwise agreed in writing by the Trustee, the written original of the redemption request duly signed by the Unitholder has been received by the Registrar and (b) the signature of the Unitholder (or each joint Unitholder) has been verified to the satisfaction of the Trustee.

Subject as mentioned above, and save as otherwise agreed by the Manager, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the Class Currency of the Units redeemed by telegraphic transfer, within 10 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented request for redemption of Units. Notwithstanding the aforesaid, under extreme market conditions where there is insufficient availability of RMB for currency conversion, the Manager may, subject to the prior approval of the relevant redeeming Unitholder, pay redemption proceeds in respect of any RMB-denominated Units redeemed in HKD converted at a rate which the Manager deems appropriate in the circumstances at the expense of the relevant redeeming Unitholder.

Any bank charges associated with the payment of redemption proceeds will be borne by the relevant Unitholder.

Payment will only be made to a bank account in the name of the Unitholder. No third party payments will be allowed.

Redemption proceeds can be paid in a currency other than the Class Currency of the Units redeemed at the request and expense of the Unitholder. In such circumstances, the Manager will use such currency exchange rates as it may from time to time deem appropriate. None of the Manager, the Trustee or the Registrar shall be liable to any Unitholder for any loss suffered by any person arising from the said currency conversion.

### **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 Fund is suspended (for details see "Suspension of Calculation of Net Asset Value" below). Any redemption request received by the Registrar (and/or other persons appointed by the Registrar or the Manager) during the period of suspension shall be considered as having been received immediately following the termination of the suspension. The period for settlement of any such redemption request will be extended by a period equal to the length of the period of suspension.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the written approval of the Trustee, to limit the number of Units of the Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of Units of the Fund in issue. In this event, the limitation will apply pro rata so that all Unitholders wishing to redeem Units of the 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 based on the Unit

Redemption Price as at the relevant Dealing Day, subject to the same limitation, and will have priority on the next Dealing Day over subsequent redemption requests received in respect of such subsequent Dealing Day. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned.

### **CONVERSION**

Subject to any suspension of the right of Unitholders to require redemption of Units of a Class and the minimum investment requirements of each Class, Unitholders may convert some or all of their Units of any Class (the “Original Class”) into Units of another Class or units of any other collective investment schemes managed by the Manager which has been authorised by the SFC (the “New Class”) subject to approval by Manager and Trustee. Unitholders may request such a conversion by giving notice in writing to the Registrar (and/or other persons appointed by the Registrar or the Manager), such notice to be sent by post, facsimile or other electronic means from time to time determined by the Manager and the Trustee at the business address or facsimile number specified on the conversion form. Unless otherwise agreed by the Trustee, the original of any conversion request given by facsimile should be forwarded to the Registrar. None of the Trustee, the Registrar or the Manager shall be responsible to any Unitholder for any loss resulting from the non-receipt, illegibility or duplicate receipt of a request for conversion or any amendment to a request for conversion prior to receipt or for any loss caused in respect of any action taken as a consequence of instructions sent by way of facsimile or other electronic means believed in good faith to have originated from properly authorised persons. Requests for conversion, once given, are irrevocable except with the consent of the Manager.

Partial conversions may be effected. However, if a request for partial conversion would result in a Unitholder having a residual holding which is less than the minimum holding of the relevant Class, the Manager may reject the conversion request and conversion will not be effected, or the Manager may treat the conversion request as a request to convert all the Units held by the relevant Unitholder. The Manager reserves the right to waive the minimum holding requirement for any partial conversion of Units between Classes.

Conversions may take place on a Dealing Day only. Where a request for conversion is received by the Registrar (and/or other persons appointed by the Registrar or the Manager) prior to the Dealing Deadline in respect of a Dealing Day, conversion will be effected with reference to that particular Dealing Day. Where a request for conversion is received by the Registrar (and/or other persons appointed by the Registrar or the Manager) after the Dealing Deadline in respect of a Dealing Day, it will be deemed to have been received on, and will be effected with reference to, the next following Dealing Day.

The Manager is entitled to impose a conversion fee on the conversion of Units. The conversion charge will be deducted from the amount reinvested in the New Class and will be paid to the Manager. Details of the conversion fee are set out in the section headed “Expenses and Charges” below.

In respect of a Dealing Day, conversion will be effected as follows:

- Redemption of the Units of the Original Class will be dealt with by reference to the Unit Redemption Price on that Dealing Day;
- where the Original Class and the New Class have different Class Currencies, the redemption proceeds of Units of the Original Class, after deduction of any conversion fee, shall be converted into the Class Currency of the New Class; and
- the resulting amount will be used to subscribe for Units of the New Class at the relevant Subscription Price of the New Class on the relevant Dealing Day.

The Manager may suspend the conversion of Units during any period in which the determination of the Net Asset Value of the Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below).

### **VALUATION**

The Net Asset Value of the Fund is calculated by valuing the assets of the Fund and deducting the liabilities attributable to the Fund. These liabilities include, without limitation, any management fee, performance fee, trustee fee or fee accruals, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Trust Deed, and an appropriate allowance for any contingent liabilities.

In order to determine the Net Asset Value of a Unit of a particular Class, the Net Asset Value is calculated before the deduction of the amount of any liabilities or the addition of the amount of any assets attributable specifically to the Class in question; such amounts are apportioned between each Class by reference to the numbers of undivided shares in the Fund represented by all Units of each Class in issue; the liabilities and assets specifically attributable to the Class in question is then deducted from or added to such apportioned amount; and the resulting sum is divided by the number of Units of the relevant Class in issue immediately prior to the relevant Dealing Day.

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

- (a) any security (including an interest in a collective investment scheme) which is listed or quoted on any securities exchange or similar electronic system and regularly traded thereon will be valued at its last traded price or last closing price as at the Valuation Point or, if no trades occurred on such day, the last available traded price or closing price, and where prices are available on more than one exchange or system for a particular security the price will be the last available traded price or closing price on the exchange which constitutes the main market for such security;
- (b) any security (other than an interest in a collective investment scheme) which is not listed or quoted on any securities exchange or similar electronic system or if, being so listed or quoted, is not regularly traded thereon or in respect of which no prices as described above are available will be valued at its probable realisation value as at the Valuation Point, as determined by the Manager having regard to its cost price, the price at which any recent transaction in the security may have been effected, the size of the holding having regard to the total amount of such security in issue, and such other factors as the Manager deems relevant in considering a positive or negative adjustment to the valuation, provided that the Manager shall at such times as the Trustee may require cause an independent valuation to be made by a person approved by the Trustee;
- (c) investments, other than securities or an interest in a collective investment scheme, which are dealt in or traded through a clearing firm or an exchange or through a financial institution will be valued as at the Valuation Point by reference to the most recent official settlement price quoted by that clearing house, exchange or financial institution. If there is no such price, then the average will be taken between the lowest offer price and the highest bid price as at the Valuation Point on any market on which such investments are or can be dealt in or traded and where such investments are dealt in or traded on more than one market, the Manager may determine which market shall prevail, provided that the Manager shall at such times as the Trustee may require cause an independent valuation to be made by a person approved by the Trustee;

- (d) investments, other than securities or an interest in a collective investment scheme, including over-the-counter derivative contracts, which are not dealt in or traded through a clearing firm or an exchange or through a financial institution will be valued by reference to the valuation obtained from an independent pricing source, but where no such valuation is available for a particular investment, the investment will be valued by comparing the latest available valuation provided by the relevant counterparty against the valuation provided by such other counterparties as the Manager deems appropriate, and in the event that the valuations provided respectively by the relevant counterparty and the other counterparties differ to an extent that the Manager considers to be material, the investment shall be valued on the basis of the average of all of the valuations but otherwise will be valued on the basis of the valuation provided by the relevant counterparty;
- (e) deposits will be valued at their cost plus accrued interest;
- (f) the value of each unit, share or interest in any collective investment scheme which is not listed or quoted on any securities exchange or similar electronic system and which is valued as at the same day as the Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Manager so determines, or if such information is not available when calculating the Net Asset Value of the Fund, or if such collective investment scheme is not valued as at the same day as the Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme (where available) or (if the same is not available) the last published redemption or bid price for such unit, share or other interest, provided that if no net asset value, bid and offer prices or price quotations are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Trustee;
- (g) 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; and
- (h) the value of any investment (whether of a security or cash) in a currency other than the Base Currency or the relevant Class Currency will be converted into the Base Currency or such Class Currency (as the case may be) at the rate (whether official or otherwise) which the Manager deems appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

The annual accounts of the Fund will be drawn up in accordance with IFRS. Under IFRS, investments should be valued at fair value, if an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread is considered to be the most representative of the fair value. Where the last traded price does not fall within the bid-ask spread, such valuation basis may deviate from IFRS. To the extent that the valuation basis adopted by the Fund deviates from IFRS, adjustments may be made in the annual financial statements in order to comply with IFRS. If relevant a reconciliation note may be included in the annual financial statements to reconcile values shown in the annual accounts determined under IFRS to those arrived at by applying the valuation policies described above.

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

The Manager, with the approval of the Trustee and having regard to the best interests of Unitholders, may declare a suspension of the determination of the Net Asset Value of the Fund in exceptional circumstances, being the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any market on which a substantial part of the investments of the Fund is normally traded or a breakdown in any of the means normally employed in ascertaining the prices of investments or the Net Asset Value of the Fund or the Net Asset Value per Unit in the Fund; or
- (b) for any other reason the prices of investments of the Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or
- (c) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any investments of the Fund or it is not possible to do so without seriously prejudicing the interests of relevant Unitholders; or
- (d) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the investments of the Fund or the issue or redemption of Units in the Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal rates of exchange; or
- (e) a breakdown in the systems and/or means of communication usually employed to determine the Net Asset Value of the Fund or the Subscription Price and Unit Redemption Price or when for any other reason the Net Asset Value or the Subscription Price and Unit Redemption Price cannot be ascertained in a prompt or accurate manner; or
- (f) the business operations of the Manager, the Trustee, the Administrator or the Registrar in respect of the Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes, or acts of God.

Such suspension will take effect forthwith upon the declaration thereof and thereafter there will be no determination of the Net Asset Value of the Fund until the Manager or the Trustee (upon consultation with the other) declares the suspension at an end, except that 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 ceases to exist and (ii) no other condition under which suspension is authorised exists.

Whenever such a suspension is declared, the Manager shall give notice of the suspension to all Unitholders and shall, as soon as may be practicable after any such declaration and at least once a month during the period of such suspension, publish a notice on the website [www.zealasset.com](http://www.zealasset.com) (this website has not been reviewed by the SFC).

No Units in the Fund may be issued or redeemed during such a period of suspension.

### **Publication of Net Asset Value**

The latest Net Asset Value per Unit of each Class will be published on each Business Day on the website [www.zealasset.com](http://www.zealasset.com) (this website has not been reviewed by the SFC).

## **EXPENSES AND CHARGES**

### **Fees Payable by Unitholders**

The following fees and charges are payable by Unitholders:



### Subscription Fee

Under the Trust Deed, the Manager is entitled to impose a subscription fee on the issue of Units of up to 5% of the Subscription Price.

Currently, the Manager imposes a subscription fee of 5% of the applicable Subscription Price in respect of each Unit. The subscription fee is payable in addition to the Subscription Price per Unit and will be retained by or paid to the Manager. The Manager may pay to approved distributors a proportion of this subscription fee, based on the value of the relevant business introduced to the Fund.

The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription fee.

### Redemption Fee

There is no redemption fee applicable for the Fund.

### Conversion Fee

Under the Trust Deed, the Manager is entitled to impose a conversion fee on the conversion of Units of up to 5% of the Unit Redemption Price of each Unit converted.

Currently, where Unitholders request a conversion of Units, the Manager imposes a conversion fee of up to 1% of the Unit Redemption Price of each Unit converted. The conversion fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the conversion fee.

## **Fees Payable by the Fund**

The following fees and charges are payable out of the assets of the Fund:

### Fees Payable to the Manager

#### *Management fee*

The Trust Deed provides that the Manager is entitled to a management fee in respect of the Fund, the maximum amount of which is equal to 3% per annum of the Net Asset Value of the Fund.

Currently, the Manager charges a management fee of 1.75% per annum of the Net Asset Value of the Fund. Any increase in this rate of management fee will only be implemented after giving one month's notice (or such longer period of notice as the SFC may require) to the affected Unitholders. No increase beyond the maximum management fee stated in the Trust Deed may occur without Unitholder approval. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Manager may appoint investment managers and investment advisers, subject to the prior approval of the SFC, to assist the Manager to manage the Fund. The Manager, not the Fund, will be responsible for the fees of any persons so appointed.

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

### *Performance fee*

The Trust Deed provides that the Manager is entitled to a performance fee in respect of the Fund. The performance fee will be calculated and accrued on each Valuation Day and will be payable in arrears after the end of each Performance Period (as defined below).

In respect of each Class, the period during which performance fee will be assessed is the “Performance Period”. Each Performance Period is the period (of approximately 12 months’ duration) from and including the first Valuation Day up to and including the last Valuation Day of each financial year of the Fund.

The performance fee in respect of each Unit will be equal to 15% of the appreciation in the Net Asset Value per Unit (prior to the deduction of any provision for any distribution declared or paid in respect of that Performance Period) during the relevant Performance Period above the High Watermark per Unit (as described below) for the relevant Class. The performance fee shall be calculated daily in accordance with high-on-high basis and accrued on each Valuation Day throughout the relevant Performance Period. On each Valuation Day, a new performance fee accrual will be calculated and made in accordance with the above methodology.

The performance fee for each Valuation Day accrues and is included in the total liabilities of the Fund for the purpose of calculating the Net Asset Value per Unit for each Class for subscription and redemption purposes.

At the end of a Performance Period, the total amount (if any) of the performance fee accrual will be paid to the Manager.

The initial issue price per Unit of each Class is set as the initial High Watermark for the Units of the relevant Class. In respect of any Class, where a performance fee is payable to the Manager for a Performance Period, and if the Net Asset Value per Unit on the last Valuation Day of such Performance Period is higher than the High Watermark currently used in the formula for determination of the performance fee, such Net Asset Value per Unit will be set as the High Watermark for the relevant class for the next Performance Period. Where, however, no performance fee is payable to the Manager for such Performance Period or where the Net Asset Value per Unit on the last Valuation Day of such Performance Period is lower than the High Watermark currently used, there will not be any resetting of High Watermark and the High Watermark currently used will continue to be the High Watermark to be used for the relevant Class for the next Performance Period.

When there has already been accumulated a performance fee accrual during a period of positive performance for Units which then attracts significant new subscriptions for Units, followed by a period of negative performance, all Units will be subject to a reduction of the total amount of performance fee accrual, regardless of the time at which the Units were issued. Also, if the Net Asset Value per Unit is rising but is still below the High Watermark, no performance fee will accrue and be payable to the Manager until the Net Asset Value per Unit rises above the High Watermark. The Manager reserves the right, in such situations, to immediately close the Fund to new subscriptions although redemptions will continue to take place according to the redemption procedures in effect at the time.

If any Units are redeemed on a Dealing Day, the performance fee accrued thus far in respect of such Units will crystallise and be paid to the Manager as soon as reasonably practicable.

The Net Asset Value per Unit at which Unitholders subscribe or redeem Units at different times will be affected by the amount of performance fee accrual imbedded therein which may vary each day and in turn is determined by the performance of the Fund and the level of subscriptions to and redemptions out of the Fund at different times during the Performance Period and there will not be any adjustment to the relevant Net Asset Value per Unit.

Investors should note that there will be no equalisation payment or series units for the purposes of determining the performance fee payable to the Manager. The use of equalisation payment or issue of series units ensures that the performance fee payable by an investor is directly referable to the specific performance of such individual investor's holding of Units. The current methodology for calculating the performance fee as set out above involves adjusting the Subscription Price and Unit Redemption Price to make provision for accrual for the performance fee upon the issue and redemption of Units during the Performance Period. Investors may therefore be advantaged or disadvantaged as a result of this method of calculation, depending upon the Net Asset Value per Unit at the time an investor subscribes or redeems relative to the overall performance of the Fund during the relevant Performance Period and the timing of subscriptions to and redemptions from the Fund during the course of such Performance Period.

This can mean, for example, an investor who subscribes to the Fund during the course of a Performance Period when the Net Asset Value per Unit is below the High Watermark, and who subsequently redeems prior to the end of such Performance Period when the Net Asset Value per Unit has increased up to (but does not exceed) the High Watermark as at the time of his redemption will be advantaged as no performance fee will be chargeable in such circumstances. Conversely, an investor who subscribes to the Fund during the course of a Performance Period when the Net Asset Value per Unit is above the High Watermark will pay a price which is reduced by a provision for the performance fee because that provision will have been accrued and taken into account in calculating the Subscription Price as at the relevant Valuation Day. If he subsequently redeems prior to or at the end of such Performance Period when the Net Asset Value per Unit at the time of his redemption has decreased (but remains above the High Watermark) he may be disadvantaged as he could still be required to bear a performance fee calculated on the increase in the Net Asset Value per Unit above the High Watermark.

As a result of the foregoing, there is a risk that a Unitholder redeeming Units may still incur performance fee in respect of the Units, even though a loss in investment capital has been suffered by the redeeming Unitholder.

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

### Fees Payable to the Trustee

The Trust Deed provides that the Trustee is entitled to a trustee fee in respect of the Fund, the maximum amount of which is equal to 1% per annum of the Net Asset Value of the Fund, subject to a monthly minimum fee as agreed between the Manager and the Trustee from time to time.

Currently, the Trustee is paid a fee of up to 0.15% per annum of the Net Asset Value of the Fund, subject to a monthly minimum fee as agreed between the Manager and the Trustee from time to time. Any increase in this fee will only be implemented after giving one month's notice (or such longer period of notice as the SFC may require) to the affected Unitholders. No increase beyond the maximum trustee fee stated in the Trust Deed may occur without Unitholder approval.

The Trustee also acts as the Registrar of the Fund and is entitled to receive transaction fees, processing fees, valuation fees and other applicable fees as agreed with the Manager from time to time. The Registrar will also be reimbursed by the Fund for all out-of-pocket expenses properly incurred by it in the performance of its duties.

### Fees payable to the Custodian

Pursuant to the fee letter entered into between the Fund and the Custodian, the Custodian is entitled to (among others) transaction charges at customary market rates and custody fees at different rates, largely

depending on the investment instruments concerned as well as the markets where the Custodian is required to hold the Fund's assets. Such fees will be calculated monthly and will be paid monthly in arrears, out of the assets of the Fund. The Custodian will also be entitled to reimbursement by the Fund for any out-of-pocket expenses or third-party charges incurred in the course of its duties.

### Other Charges and Expenses

The Manager has appointed Quality Risk Management & Operations (QRMO) Limited ("QRMO"), a Hong Kong limited liability company, to perform independent risk monitoring, middle-office and back-office services in respect of the Fund. Notwithstanding such appointment, however, the Manager remains responsible for monitoring the risk of the Fund. The Manager pays QRMO a fee for providing services in respect of the Fund of not more than 0.05% per annum of the gross asset value of the Fund, subject to a minimum monthly fee of HKD20,000 per month. QRMO was paid an inception fee of HKD16,000 and is also paid certain transaction and processing fees. The Manager seeks reimbursement of these fees from the Fund.

In addition to the fees and charges mentioned above, the Fund bears the other costs and expenses set out in the Trust Deed, which include but are not limited to the costs of investing and realising the investments of the Fund, the fees and expenses of safekeeping of the assets of the Fund, the fees and expenses of the administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation, printing and distribution of any explanatory memorandum (or updates thereto), financial statements, reports and notices. Additionally, the Fund bears all costs incurred as a result of a change in law or regulatory requirement or the introduction of any new law or regulatory requirement (including any costs incurred as a result of compliance with any code relating to unit trusts or collective investment schemes, whether or not having the force of law).

Expenses arising out of any advertising or promotional activities in connection with the Fund will not be charged to the Fund.

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

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

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

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

- (a) the goods or services or other benefits (including research and advisory services; economic and political analysis; portfolio analysis including valuation and performance measurement; market analysis, data and quotation services; computer hardware and software incidental to the above goods and services; clearing and custodian services and investment-related publications), the nature of which is such that their provision can reasonably be expected to benefit the Fund and the Unitholders as a whole and may contribute to an improvement in the performance of the Fund or of the Manager and/or any company associated with it in providing services to the Fund and for which no direct payment is made but instead the Manager and/or any company associated with it undertakes to place business with that party, are of demonstrable benefit to the Unitholders;

- (b) transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates;
- (c) the Manager's cash rebate and soft commission practices including a description of the goods and services received by the Manager will be disclosed in the annual report of the Fund;
- (d) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with the broker or dealer; and
- (e) such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

### **RISK FACTORS**

*The nature of the Fund's investments involves certain risks. An investment in Units therefore carries risk and is suitable only for persons which can assume the risk of losing their investment. Prospective investors should consider the following factors, as well as the information in this Explanatory Memorandum, and should consult their financial advisers before making any investment in the Fund:*

#### Access Products risk

The Fund may from time to time obtain exposure to restricted markets by investing into Access Products.

An Access Product represents only an obligation of the counterparty issuing the Access Product to provide to the Fund the economic performance equivalent to holding the underlying shares. An Access Product does not provide any beneficial or equitable entitlement or interest in the shares to which the Access Product is linked. An Access Product constitutes an unsecured contractual obligation of the relevant issuer. Accordingly, the Fund is subject to credit risk of the issuer of any Access Product invested in by the Fund. The Fund may suffer a loss, potentially equal to the full value of the Access Product, if the issuer becomes bankrupt or otherwise fails to perform its obligations under the Access Product due to financial difficulties.

Any Access Product will be subject to the terms and conditions imposed by its issuer and such terms and conditions may lead to delays in implementing the investment strategy of the Fund. Access Products typically have no active secondary market and so have limited liquidity. In order to liquidate investments, the Fund will rely upon the issuer quoting a price to unwind part of the Access Product. Accordingly the ability to adjust positions may be restricted which may have an impact on the performance of the Fund.

Under the relevant laws and regulations, the ability of Access Product issuers to acquire shares in certain companies may be limited from time to time due to the imposition of certain investment restrictions. These restrictions may restrict the ability of an issuer to issue, and therefore the ability of the Fund to purchase, Access Products linked to certain shares. In certain circumstances, the Manager may not be able to fully implement or pursue the investment strategy of the Fund due to such restrictions.

#### Concentration risk

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Fund, the concentration of the Fund's investments in companies engaging in China related businesses may subject the Fund's investments to greater volatility than portfolios which comprise broad-based global investments.

### Counterparty risk

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

### Credit risk

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

The Fund faces the risk that an issuer of a security in which the Fund has invested will default on its obligations due to insolvency or financial distress, resulting in an adverse effect on the value of the Fund's investments.

### Currency risk

The Fund may hold investments denominated in a currency different to the Base Currency meaning the Fund's assets may be at risk to adverse movements in the foreign currency rates. The value of the Fund's assets, and therefore the Net Asset Value of the Units, will be affected by, amongst other factors, the relative exchange rates of the Base Currency and the currency in which the assets of the Fund are denominated. In addition, any Class not denominated in the Base Currency is exposed to possible adverse currency fluctuations between its currency of denomination and the Base Currency.

Other than in respect of any hedged Class, the Manager may or may not hedge any foreign exchange risk in respect of the Fund.

### Debt securities risk

The Fund may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The Fund may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. The issuers of debt securities may default on their obligations, whether due to insolvency, bankruptcy, fraud or other causes and their failure to make the scheduled payments could cause the Fund to suffer significant losses. The Fund will therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

### Derivatives risk

The Fund may use derivatives for hedging and/or investment purposes (notwithstanding this, derivatives will not be extensively or primarily used for investment purposes). Such instruments include both exchange-traded and over-the-counter derivatives, including, but not limited to, warrants, futures, forwards, swaps, options and contracts for differences. These instruments can be highly volatile and expose investors to a high risk of loss. Unless the derivative is one which does not create any leveraged effect, if the initial margin deposit required to establish a position in such instrument is low, this will permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further, when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. In addition, where the Fund takes a short position on investments in anticipation of a price decline, but such investments subsequently rise in value, the Fund may suffer losses.

The use of derivatives exposes the Fund to several additional risks, including: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset); (3) legal risks (the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (4) operations risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (where there is no active trading market for the derivative and therefore the Fund is unable to dispose of the derivative at a fair price quickly or can only dispose of the derivative at a discount); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty) and (10) valuation risk (the risk of parties adopting different valuation methodologies to value the derivative).

### Equity risk

Investing in equity securities may offer a higher rate of return than in short term and longer term debt securities. However, the risks associated with investing in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might decrease in value.

### Hedged Class risk

The Manager generally seeks to hedge the foreign currency exposure of any hedged Class to the Base Currency, with the aim of reducing the impact of currency fluctuations of the relevant Class Currency against the Base Currency. The extent of hedging will be determined by the Manager based on its view on the relevant Class Currency and may vary from time to time. The effects of hedging will be reflected in the Net Asset Value per Unit of the relevant hedged Class. However, the costs of entering into hedging

transactions, which is borne by the relevant hedged Class, depends on prevailing market conditions and may be expensive.

There is no guarantee that the desired hedging instruments will be available or that the hedging techniques employed by the Manager will be effective in achieving their desired result. Furthermore, if the counterparties of the instruments used for hedging default, investors of the hedged Class may be exposed to currency exchange risk on an unhedged basis and may suffer additional losses.

Hedging can also limit potential gains of a hedged Class. Whilst hedging may protect investors against a decrease in the value of the Base Currency relative to the relevant Class Currency, it may also preclude investors from benefitting from any increase in value of the Base Currency. Investors should also be aware that the volatility of a hedged Class may be higher than that of the equivalent Class denominated in the Fund's Base Currency.

### Investment risk

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

The Manager invests the assets of the Fund in investments which it considers will achieve the investment objective of the Fund. Whilst it is the intention of the Manager to implement strategies which are designed to achieve such objective, no guarantee or representation is made that such strategies will be successful. The Manager may not be successful in selecting the best-performing securities or investment techniques.

Accordingly, there is a risk that investors may not recoup the original amount invested in the Fund or may lose a substantial part or all of their initial investment.

### Lack of majority control over underlying companies risk

The Fund's holding of ordinary shares of a single class (other than Government and other public securities) may not exceed 10% of the nominal amount of the ordinary shares of the same class in issue. All investments made or to be made in respect of the Fund will therefore be passive in nature and the Manager will not be able to exert any control over the relevant underlying companies.

### Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects the Fund. Differences in laws between countries or jurisdictions may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of the Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including altering investments of the Fund or restructuring the Fund.

### Liquidity and market characteristics risk

In some circumstances, investments may be relatively illiquid making it difficult to acquire or dispose of them at the prices quoted on the various exchanges. Accordingly, the Manager's ability to respond to market movements may be impaired and the Fund may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties.



### Market risk

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

### Performance fee related risk

In addition to receiving a management fee, the Manager may also receive a performance fee based on the appreciation in the Net Asset Value per Unit. As the calculation of the Net Asset Value per Unit will take account of unrealised appreciation as well as realised gains, a performance fee may be paid on unrealised gains which may subsequently never be realised. Furthermore, due to the way in which the performance fee is calculated, a Unitholder may incur a performance fee even though ultimately the Unitholder does not receive a positive return from the Fund (please also refer to the details of how performance fee is calculated under the section headed “Expenses and Charges”). The performance fee may also create an incentive for the Manager to make investments for the Fund which are riskier than would be the case in the absence of a fee based on the performance of the Fund.

### Investing in Mainland China risk

Apart from the usual investment risk, investing in Mainland Chinese companies is also subject to certain other inherent risks and uncertainties.

*Accounting and reporting standards:* Mainland Chinese companies are required to follow Mainland Chinese accounting standards and practice which follow international accounting standards to a certain extent. However, the accounting, auditing and financial reporting standards and practices applicable to Mainland Chinese companies may be less rigorous, and there may be significant differences between financial statements prepared in accordance with Mainland Chinese accounting standards and practice and those prepared in accordance with international accounting standards. As the disclosure and regulatory standards in Mainland China are less stringent than in more developed markets, there might be substantially less publicly available information about issuers in Mainland China on which the Manager can base investment decisions.

*PRC government control of currency conversion and future movements in exchange rates:* Various Mainland China companies derive their revenues in RMB but have requirements for foreign currency, including for the import of materials, debt service on foreign currency denominated debt; purchases of imported equipment and payment of any cash dividends declared in respect of e.g. H shares and N shares.

The existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. However, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the State Administration for Foreign Exchange. Since 1994, the conversion of RMB into Hong Kong dollars and United States dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate. The Manager cannot predict nor give any assurance of any future stability of the RMB to Hong Kong dollar exchange rate. Fluctuations in exchange rates may adversely affect the Fund's Net Asset Value.

*Developing legal and regulatory system:* The Mainland Chinese legal system is a codified legal system comprising written statutes, regulations, circulars, administrative directives, internal guidelines and their interpretation by the Supreme People's Court. Since 1979, the Mainland Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. However, experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into is also limited.

*Nationalisation and expropriation:* After the formation of the Chinese socialist state in 1949, the Chinese government renounced various debt obligations and nationalised private assets without providing any form of compensation. In recent years, the Chinese government has adopted a more friendly attitude towards foreign investment in Mainland China. However, there can be no assurance that the Chinese government will not take similar actions in the future.

*Political and economic considerations:* Prior to 1978, the Mainland Chinese economy was centrally planned, and the PRC government was responsible for formulating five-year plans for the country which set forth economic targets. However, since 1978, the PRC has implemented a series of economic reform programmes emphasising the utilisation of market forces in the development of the Mainland Chinese economy and a high level of management autonomy. Mainland China's economy has experienced significant growth in the past twenty years, but growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. However, there can be no assurance that the PRC government will continue to pursue such economic policies or, if it does, that those policies will continue to be successful. The PRC government may from time to time adopt corrective measures to control inflation and restrain the rate of economic growth, which may also have an adverse impact on the capital growth and performance of the Fund. The above factors could negatively affect the value of the investments held by the Fund and consequently the Net Asset Value of the Units.

*Securities markets and market liquidity risk:* The stock exchanges and markets in Mainland China have experienced significant fluctuations in the prices of securities, and no assurance can be given that such volatility will not continue in the future. Mainland China's securities markets are undergoing a period of growth and change which may lead to difficulties in the settlement and recording of transactions (which may result in such markets being less efficient and less liquid from time to time) and in interpreting and applying the relevant regulations. The Mainland Chinese regulatory authorities have only recently been given the power and duty to prohibit fraudulent and unfair trade practices relating to securities markets, including insider trading and market abuse, and to regulate substantial acquisitions of shares and takeovers of companies.

*Government intervention and restrictions risk:* The liquidity and price volatility associated with securities markets in Mainland China are subject to greater risks of government intervention (for example, to suspend trading in particular stocks) and imposition of trading restrictions for all or certain stocks from time to time. In addition, A-shares traded in Mainland China are still subject to trading band limits that restrict maximum gain or loss in stock prices, which means the prices of stocks may not necessarily reflect their underlying value.

*QFII/RQFII system risks:* The Fund may from time to time invest in other funds (including ETFs) which obtain direct exposure to A-shares via the QFII/RQFII (i.e. qualified foreign institutional investors who have been approved by the CSRC to invest in the Mainland China securities and futures markets) systems. The rules regulating investments by QFII/RQFIIs in Mainland China and the repatriation of capital out of Mainland China are relatively new, and as such their application and interpretation are relatively untested

and there is no certainty as to how they will be applied by the relevant PRC authorities in any given situation. Any change to the QFII/RQFII system may adversely affect the value of the Fund's investment in underlying QFII/RQFII funds. In addition, an underlying QFII/RQFII fund is exposed to the credit risk of the onshore Mainland China custodians and brokers it appoints, and a default of any such Mainland China custodian or broker may cause significant losses to the underlying QFII/RQFII fund.

### Investing in other funds risk

The Fund may from time to time invest in other funds (including ETFs) which make direct investments in A-shares. Investing in other funds may expose the Fund to the following risks:

*Additional fees associated with investing in underlying funds:* The value of the shares or units of the underlying funds will take into account their fees and expenses, including fees (in some cases including performance fees) charged by their management companies or investment managers. Some underlying funds may also impose fees or levies which may be payable by the Fund when it subscribes to or redeems out of such underlying funds. Whilst the Manager will take the level of any such fees into account when deciding whether or not to invest, investors should nevertheless be aware that investing into underlying funds may involve another layer of fees, in addition to the fees charged by the Fund.

*Investment objective risk:* Although the Manager will use due diligence procedures to select and monitor underlying funds, there can be no assurance that an underlying fund's investment strategy will be successful or that its investment objective will be achieved.

*Conflicts of interest risk:* The Fund may from time to time invest in other funds managed by the Manager or Connected Persons of the Manager. In such circumstances, in accordance with the Fund's investment restrictions, all initial charges on the underlying fund must be waived for the Fund and the Manager may not obtain a rebate on any fees or charges levied by the underlying fund. In addition, where an underlying fund is managed by the Manager, all management and performance fees charged by the underlying fund will be waived for the Fund. However, despite such measures, conflicts of interest may nevertheless arise out of such investments, and in such event the Manager will use its best endeavours to avoid and resolve such conflicts fairly.

### Mainland China taxation associated risk

By investing in securities (including A-shares, B-shares and H-shares) issued by Mainland China tax resident enterprises, irrespective of whether such securities are issued or distributed onshore or offshore, the Fund may be at risk of being subject to Mainland China taxes.

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

Please refer to the section headed "Taxation" below for further information on the risks associated with Mainland China taxation.

### Stock Connect risk

The Fund's investments through the Stock Connect may be subject to the following risks.

*Quota limitations:* The Stock Connect is subject to quota limitations. The investment quota does not belong to the Fund and is utilised on a first-come-first-serve basis. In particular, once the remaining

balance of the Northbound Trading Daily Quota drops to zero or the Northbound Trading Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Fund's ability to invest in A-shares through the Stock Connect may be affected.

*Suspension risk:* The Stock Exchange of Hong Kong Limited, the SSE and the SZSE 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 is effected, the Fund's ability to access the Mainland China market through the Stock Connect will be adversely affected.

*Operational risk:* The Stock Connect provides a channel for investors from Hong Kong and overseas to access the Mainland China stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. As the securities regimes and legal systems of the two markets differ significantly, market participants may need to address issues arising from such differences on an on-going basis in order for the programme to operate.

Further, the "connectivity" in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and 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 failed to function properly, trading in both markets through the programme could be disrupted.

*Recalling of eligible stocks:* If a stock is recalled from the scope of eligible stocks for trading via the Stock Connect, the stock can only be sold and cannot be bought. This may affect the Fund's investment portfolio or strategy if, for example, the Manager wishes to purchase a stock which is recalled from the scope of eligible stocks.

*Clearing and settlement risk:* The HKSCC and CSDCC have established the clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary 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 CSDCC default occur and the CSDCC 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 the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC's liquidation. In that event, the Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

*Nominee arrangements:* HKSCC is the nominee holder of the SSE Securities and SZSE Securities acquired by Hong Kong and overseas investors through Stock Connect.

The CSRC Stock Connect rules expressly provide that investors enjoy the rights and benefits of the securities acquired through Stock Connect in accordance with applicable laws. Such rules are departmental regulations having legal effect in Mainland China. However, the application of such rules is untested, and there is no assurance that Mainland China courts will recognise such rules (for example, in liquidation proceedings of Mainland China companies).

It should be noted that, under the CCASS Rules, HKSCC as nominee holder shall have no obligation to take any legal action or court proceedings to enforce any rights on behalf of the investors in respect of

the SSE Securities and SZSE Securities in the Mainland China or elsewhere. Therefore, although the Fund's ownership may be ultimately recognised, the Fund may suffer difficulties or delays in enforcing its rights in SSE Securities or SZSE Securities.

*Participation in corporate actions and shareholders' meetings:* HKSCC will keep CCASS participants informed of corporate actions of SSE Securities and SZSE Securities. Hong Kong and overseas investors (including the 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 and SZSE Securities may be as short as one business day only. Therefore, the Fund may not be able to participate in some corporate actions in a timely manner.

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

*No Protection by Investor Compensation Fund:* Investment through the Stock Connect program is conducted through broker(s), and is subject to the risks of default by such brokers' on their obligations. To the extent the Fund carries out Northbound trading through securities brokers in Hong Kong but not Mainland China brokers, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the PRC. A Fund's investments through Northbound trading under Stock Connect are not covered by the Hong Kong's Investor Compensation Fund for defaults occurring before 1 January 2020, therefore the Fund would be exposed to the risks of default of the broker(s) it engages in its trading in A-Shares through the Stock Connect. For defaults occurring on or after 1 January 2020, the Fund will be covered by the Hong Kong's Investor Compensation Fund.

*Regulatory risk:* The Stock Connect is evolving, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in Mainland China 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 the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

*Taxation risk:* Although the relevant authorities have announced that corporate income tax, business tax, and individual income tax will be temporarily exempted on gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A-shares through the Stock Connect, dividends from A-shares paid to Hong Kong and overseas investors will continue to be subject to 10% Mainland China withholding income tax and the company distributing the dividend has the withholding obligation. Further, investors should note that the tax exemption on gains derived from trading of A-shares via the Stock Connect under Notice No. 81 and Notice No. 127 (both as defined in the section headed "Taxation" below) was granted on a temporary basis and there is no assurance that the Fund will continue to enjoy the tax exemption over a long period of time. If the exemption under Notice No. 81 and Notice No. 127 is withdrawn, or if guidance is issued in relation to the tax position for A-shares traded via the Stock Connect which differs from the current practice of the Manager, any tax on capital gains derived from the trading of A-shares via the Stock Connect may be directly borne by the Fund and may result in a substantial impact to the Fund's Net Asset Value.

The Mainland China tax rules and practices in relation to the Stock Connect are new and their implementation is untested and uncertain. It is possible that any future announcement by the Mainland China tax authority may subject the Fund to unforeseen tax obligations, which may have retrospective effect.

*Differences in trading days:* Stock Connect only operates on days when the SEHK market and the mainland market (SSE and SZSE) are open for trading, and banking services are available in both markets on the corresponding settlement days. Accordingly, there may be occasions when it is a trading day for the Mainland China market but not a trading day for the Hong Kong market. On these occasions, the Fund may be subject to a risk of price fluctuations in A-shares as the Fund will not be able to trade A-shares through the Stock Connect.

### RMB currency risk

*RMB is not freely convertible and subject to exchange controls and restrictions:* From 2005, the RMB is no longer pegged to the USD but has moved to a managed floating exchange rate system under which the RMB is permitted to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Nevertheless, the RMB is not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Such government policies and restrictions are subject to change, and there can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.

*Investors may be adversely affected by movements of exchange rates between the RMB and other currencies:* The Fund's portfolio will be primarily denominated in HKD. Where an investor subscribes for Units denominated in RMB, the Manager may convert such subscription monies into HKD or USD prior to investment at the applicable exchange rate and subject to the applicable spread. Where an investor redeems Units denominated in RMB, the Manager may sell the Fund's portfolio investments, which may be denominated in a currency other than RMB, and convert such proceeds into RMB at the applicable exchange rate and subject to the applicable spread. In such case an investor may enjoy a gain in HKD (or USD) terms but suffer a loss when converting currencies between HKD (or USD) and RMB.

In calculating the Net Asset Value per Unit of a Class denominated in RMB and in effecting any currency conversions involving RMB, the Manager will apply the CNH rate (i.e. the exchange rate for the offshore RMB market in Hong Kong). Whilst the RMB (CNH) and RMB (CNY) represent the same currency, they are traded in different and separate markets which operate independently. As such, RMB (CNH) may trade at a premium or discount to RMB (CNY) and they may even move in different directions.

*Availability of offshore RMB risk:* The ability of the Fund in meeting redemption requests will also depend on the availability of RMB in Hong Kong or otherwise outside of Mainland China. The supply of offshore RMB and the conversion of foreign currency into RMB are subject to exchange control policies and restrictions imposed by the PRC authorities. Such policies and restrictions may change at any time, and it is possible that the liquidity of offshore RMB could deteriorate. Under extreme market conditions where there is insufficient availability of RMB for currency conversion by the Fund, a redeeming Unitholder may experience delays in receiving redemption proceeds in RMB (but payment will in any event be made within one calendar month of the Dealing Day on which a properly documented request for redemption of Units is received before the Dealing Deadline). In such circumstances, the Manager may, subject to the prior approval of the relevant redeeming Unitholder, pay redemption proceeds in respect of any RMB-denominated Units redeemed in HKD, in which case the redeeming Unitholder may suffer additional currency conversion costs.

### Short selling risk

The Fund's investment portfolio may include short positions. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit

from a decline in the price of a particular security. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the security necessary to cover the short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, if a sufficient number of market participants have entered into a short position, the short position may not react in the same way as a security would with no or limited short interest. In the case of a market downturn the short position may therefore not provide the investment return the Manager expected.

### Suspension risk

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

### Termination of the Fund risk

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

### US HIRE Act on Compliance with United States Withholding Requirements risk

The US Hiring Incentives to Restore Employment Act (the "HIRE Act") was signed into US law in March 2010 and includes provisions commonly referred to as the "Foreign Account Tax Compliance Act" or "FATCA". Broadly, the FATCA provisions are set out in sections 1471 to 1474 of the US Internal Revenue Code of 1986, as amended (the "Revenue Code"), which impose a new reporting regime with respect to certain US sourced payments to non-financial foreign entities and foreign financial institutions (each an "FFI"), such as the Fund. FATCA provisions apply to such payments including but not limited to interests and dividends from securities of US issuers and gross proceeds from the sale of such securities ("withholdable payments"). All such withholdable payments may be subject to withholding tax at a rate of 30%, unless the recipient of the payment satisfies certain disclosure and reporting requirements intended to enable the US Internal Revenue Service (the "IRS") to identify payments made to United States persons (within the meaning of the Revenue Code) ("US persons") and to determine which (if any) financial accounts maintained by FFI are United States accounts. A "financial account" means any depository account, custodial account and any equity or debt interest in the FFI. For the purposes of the Fund, Unitholders are account holders under FATCA. To avoid such withholding on any withholdable payments, FFIs (including banks, brokers, custodians and investment funds) located in jurisdictions that have not signed intergovernmental agreements ("IGAs") with the United States for implementation of FATCA, will be required to enter into a FFI agreement (a "FFI Agreement") with the IRS to be treated as a participating FFI ("Participating FFI"). Participating FFIs are required to identify all US financial accounts maintained by the Participating FFI and report certain information concerning such US persons to the IRS. Under the terms of the FFI Agreement, a Participating FFI may be required to deduct and withhold 30% from certain withholdable payments made by the Participating FFI to account holders who fail to cooperate with certain information requests made by the Participating FFI. Moreover, Participating FFIs may be required to deduct and withhold such withholdable payments made to account holders that are themselves FFIs but that have not entered into an FFI Agreement with the IRS or that are not otherwise deemed compliant with FATCA (i.e. a "non-compliant FFI").



FATCA withholding applies to (i) payments of US source income, including US source dividends and interest, made after 30 June 2014; and (ii) payments of gross proceeds of sale or other disposal of property that can produce US source income after 31 December 2016. The 30% withholding could also apply to payments otherwise attributable to US source income (also known as “foreign passthru payments”) starting no earlier than 1 January 2017, though the US tax rules on “foreign passthru payments” are currently pending. Withholding agents (which may include Participating FFIs) will generally be required to begin withholding on certain withholdable payments made after 30 June 2014. The first reporting deadline for Participating FFIs was 15 March 2015 with respect to information relating to the 2014 calendar year.

The United States and a number of other jurisdictions have entered into IGAs. The United States Department of the Treasury and Hong Kong have on 13 November 2014 signed a Model 2 IGA (the “HK IGA”). The HK IGA modifies the foregoing requirements but generally requires similar information regarding US persons and each account holder to be disclosed to the IRS. Under the HK IGA, FFIs in Hong Kong (such as the Fund) are required to register and enter into an FFI Agreement with the IRS, as failing to do so may result in it being subject to a 30% withholding tax on withholdable payments remitted to them.

### Impact to the Fund and Unitholders

Under the HK IGA, Participating FFIs, or Reporting HKSAR Financial Institutions as they are referred to in the HK IGA, (such as the Fund) will generally not be required to deduct and withhold tax on withholdable payments for the IRS on recalcitrant accounts (i.e. certain financial accounts held by holders who fail to comply to reasonable requests for information from Participating FFI) or to close such recalcitrant accounts (provided that information regarding the recalcitrant accounts is reported to the IRS and that the Hong Kong Commissioner of Inland Revenue exchanges with the IRS requested information about non-consenting US persons’ financial accounts and reportable amounts paid to non-compliant FFIs according to the terms of the HK IGA and the Exchange of Information about Taxes Agreement between the government of Hong Kong and the US (“TIEA”)); if the above conditions are not fulfilled the Participating FFI may be required to deduct and withhold tax on withholdable payments made to the recalcitrant accounts and non-compliant FFIs.

As the provisions of FATCA and the HK IGA are new and untested, the effects they may have on the Fund are still uncertain. Further, even with the HK IGA in place, withholding may apply to withholdable payments if the Fund cannot satisfy the applicable reporting requirements and is determined to be non-FATCA compliant or if the Hong Kong government is found in breach of the terms of the HK IGA and/or the TIEA.

The Fund has registered with the IRS as a Reporting HKSAR Financial Institution and has obtained a Global Intermediary Identification Number KYR8LZ.99999.SL.344. By registering the Fund as a Reporting HKSAR Financial Institution, the Fund agrees to report certain information about account holders to the IRS to be FATCA compliant. In order to protect Unitholders and avoid being subject to withholding under FATCA, it is the Fund’s intention to endeavour to meet the requirements imposed under FATCA. Hence it is possible that this may require the Fund (through its agents or service providers) as far as legally permitted, to report certain information regarding each account holder and/or the account balance, value, holdings or investment returns of any Unitholder to the IRS pursuant to the terms of the HK IGA. It is also possible that the Fund may be required to compulsorily redeem and/or apply withholdings to payments to Unitholders who fail to provide the information and documents required to identify their status, or who are non-compliant FFIs or who fall within other categories specified in the FATCA provisions and regulations. Any such compulsory redemption and/or withholding will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.



Although the Fund will attempt to meet all of the obligations imposed on it under FATCA to avoid being subject to withholding tax, no assurance can be given that the Fund will be able to fully meet these obligations. If the Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value of the Fund may be adversely affected and the Fund and its Unitholders may suffer material loss.

To the extent that the Fund suffers withholding tax on its investments as a result of FATCA, the Trustee or the Manager on behalf of the Fund may, after completing due process to ascertain and confirm that such withholding was a result of a Unitholder failing to cooperate and provide the required information, bring action against such Unitholder for losses suffered by the Fund as a result of such withholding tax.

The FATCA provisions are complex and their application with respect to the Fund being domiciled in Hong Kong remains uncertain at this time. The above description is based in part on regulations, official guidance and the HK IGA, all of which are subject to change or may be implemented in a materially different form. Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Unitholders should therefore consult their own tax and professional advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer the above mentioned withholding tax on their investment returns.

#### Risks related to the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standard

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

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

The AEOI rules as implemented by Hong Kong under the Ordinance require the 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 entered into a CDTA or TIEA and signed a CAA. The Ordinance requires that Hong Kong FIs report on: (i) individuals or entities that are tax resident of a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are

tax resident of a Reportable Jurisdiction. Details of Unitholders, including but not limited to their name, jurisdiction of birth, address, tax residence, account details, TIN, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in Reportable Jurisdictions.

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

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

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

By investing in the Fund and/or continuing to invest in the Fund, Unitholders acknowledge that they may be required to provide additional information to the Fund, the Manager, the Trustee and/or the Fund's agents in order for the Fund to fulfil its obligations under the Ordinance and comply with AEOI. The Unitholder's information (and information on beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), if reportable, may be communicated by the IRD to authorities in Reportable Jurisdictions. The failure by a Unitholder to provide any requested information may result in the Fund, the Manager, the Trustee and/or other agents of the Fund taking any action and/or pursue remedies at their disposal including, without limitation, compulsory redemption. Any such compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager acting in good faith and on reasonable grounds.

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

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

## **TAXATION**

Prospective Unitholders should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors, will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances. The following statements regarding taxation are based on advice received by the Manager regarding the law and practice in force in Hong Kong and Mainland China at the date of this Explanatory Memorandum.

## Hong Kong Taxation

### Taxation of the Fund

#### *Profits Tax*

As the Fund has been authorised as a collective investment scheme by the SFC under Section 104 of the SFO, profits of the Fund are exempt from Hong Kong profits tax under Section 26A(1A)(a)(i) of the Inland Revenue Ordinance.

#### *Stamp Duty*

Hong Kong stamp duty is ordinarily payable, inter alia, on the sale or purchase of Hong Kong stock. "Hong Kong stock" is defined in the Stamp Duty Ordinance ("SDO") as "stock" (as further defined in the SDO) the transfer of which is required to be registered in Hong Kong. The current Hong Kong stamp duty rate is 0.13% on the higher of the consideration amount or market value of the "Hong Kong stock".

No Hong Kong stamp duty is generally payable by the Fund on an issue or redemption of Units, where the redemption is effected by extinguishing the Units.

### Taxation of the Unitholders

#### *Profits Tax*

In accordance with the practice of the Inland Revenue Department of Hong Kong as at the date of this Explanatory Memorandum, distributions by the Fund should generally not be subject to Hong Kong profits tax in the hands of the Unitholders. Hong Kong profits tax (which is currently charged at the rate of 16.5% for corporations, and 15% for individuals and unincorporated businesses) will arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal of Units where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and such Units are not capital assets to the Unitholder. The Unitholder should take advice from his own professional advisers as to his particular tax position.

There is no withholding tax on dividend distributions in Hong Kong.

#### *Stamp Duty*

The Units fall within the definition of "Hong Kong stock" as defined in the SDO. The sale or purchase or transfer of Units of the Fund by the Unitholder should be liable to Hong Kong stamp duty at 0.13% on the higher of the consideration amount or market value of the Units. However, no Hong Kong stamp duty is payable by a Unitholder in relation to an issue or redemption of Units where the redemption is effected by extinguishing the Units.

## Mainland China Taxation

As the Fund is expected to invest in shares of Mainland Chinese tax resident enterprises (i.e. companies incorporated in Mainland China or incorporated elsewhere but with their effective management located in Mainland China), irrespective of whether such shares are listed on a stock exchange in Mainland China or elsewhere or unlisted, the Fund may be subject to withholding income tax and other taxes imposed in Mainland China.

### Enterprise Income Tax (“EIT”)

Pursuant to the PRC EIT Law and its implementation rules, if the Fund is considered as a Mainland China tax resident, it will be subject to EIT at 25% on its worldwide taxable income. If the Fund is considered as a non-tax resident enterprise but has a permanent establishment (a “PE”) in Mainland China, the profits and gains attributable to that PE would be subject to EIT at 25%.

The Manager intends to manage and operate the Fund in such a manner that the Fund should not be treated as tax resident enterprise of Mainland China or non-tax resident enterprise with a PE in Mainland China for EIT purposes, although this cannot be guaranteed. If the Fund is non-tax resident in Mainland China and has no PE in Mainland China, the Fund should technically be subject to Mainland China withholding income tax (“WIT”) on the gains derived from disposal of A-shares, B-shares or H-shares and dividends received from issuers of A-shares, B-shares and H-shares. The prevailing WIT rate for both gains on disposal and dividends is 10%. The WIT rate may be reduced or waived by (a) relevant double tax agreements/arrangements, if applicable, subject to the equity holding ratio and the tax residency status of the relevant holding company, whether it is the beneficial owner of the income in the case of dividend income and the approval from the Mainland China tax authorities; and (b) specific relief, if any, announced by the relevant authorities.

### *Dividends*

The SAT issued circulars to clarify that dividends from A-shares, B-shares and H-shares distributed from profits of year 2008 and subsequent years should be subject to WIT at 10% or a reduced rate pursuant to any applicable income tax treaty or arrangement. At present, a 10% WIT is withheld at source in respect of dividend income on A-shares, B-shares and H-shares for non-resident enterprises (including the Fund) by the entity distributing such dividend income.

In addition, pursuant to the “Notice about the tax policies related to the Shanghai-Hong Kong Stock Connect” (Caishui [2014] No. 81) (“Notice No. 81”) and the “Notice about the tax policies related to the Shenzhen-Hong Kong Stock Connect” (Caishui [2016] No. 127) (“Notice No. 127”) promulgated by the Ministry of Finance (the “MOF”), the State Administration of Taxation (the “SAT”) and the CSRC on 14 November 2014 and on 1 December 2016 respectively, dividends received by Hong Kong and overseas investors (including the Fund) from A-share investment via Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect respectively will be subject to WIT at 10% which will be withheld at source by the company distributing the dividend. If the recipient of the dividend is entitled to a lower treaty rate, it can apply to the tax bureau in-charge of the payer for a refund.

### *Capital gains*

For capital gains on trading of H-shares by non-resident enterprises in the stock exchange, no WIT on capital gains is being imposed in practice.

However, there are still uncertainties as to whether WIT will be imposed on capital gains derived from trading of B-shares. The Manager has not made and currently has no intention to make provision in respect of WIT on gains on trading of B-shares as the potential impact of the imposition of such tax liability is considered immaterial and the possibility of the imposition of such tax liability is considered remote. The Manager will monitor the situation and if, in the opinion of the Manager, a provision is warranted, the change will be implemented by the Manager and Unitholders will be notified of the change.

### *Capital gains derived through Stock Connect*

Pursuant to Notice No. 81 and Notice No. 127, EIT will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Fund) on the trading of A-shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect respectively. On the basis of Notice No. 81 and Notice No. 127, no provision in respect of WIT on the gross realised and unrealised capital gains derived by the Fund on trading of A-shares through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect will be made by the Manager on behalf of the Fund. Please note that the tax exemption granted under Notice No. 81 and Notice No. 127 is temporary. If there is any update on the tax rules applied to the Stock Connect in the future, the Manager will review and adjust the capital gain tax provisioning approach for the Stock Connect accordingly.

### *Capital gains derived through Access Products with exposure to A-shares*

The Fund may from time to time invest in Access Products in order to obtain exposure to A-shares. The issuer of the Access Products may implement hedge arrangements on the Access Products through QFII/RQFII which would acquire or dispose of the underlying A-shares to which the Access Products are linked. As the QFIIs/RQFIIs are the legal owners of the A-shares under Mainland China law with respect to such Access Products, any Mainland China taxes arising from the QFIIs'/RQFIIs' investments in such securities would be legally borne by the QFII/RQFII directly. Given that any Mainland China tax liabilities accruing to the QFII/RQFII in respect of the securities to which the Access Products are linked arise because of the trading activities of the Fund, such tax liabilities may ultimately be recharged to and borne by the Fund and would likely have an economic effect on the value of the Fund.

A foreign company such as a QFII/RQFII should be subject to 10% WIT on interest income, dividends and capital gains from Mainland China listed securities unless reduced or exempted under current Mainland China tax laws and regulations or relevant tax treaties. This is on the basis that the QFII/RQFII would be managed and operated such that it would not be considered a tax resident enterprise in Mainland China and it would not be considered to have a PE in the PRC to which the aforesaid income is attached. A tax treaty (if any) between Mainland China and the country in which the QFII/RQFII is a tax resident may further reduce the 10% WIT depending on the QFII's/RQFII's ability to meet the relevant requirements under the relevant tax treaty.

According to the "Notice on the temporary exemption of Corporate Income Tax on capital gains derived from the transfer of Mainland China equity investment assets such as Mainland China stocks by QFII and RQFII" (Caishui [2014] No. 79) ("Notice No. 79") promulgated by the MOF, the SAT and the CSRC on 14 November 2014 states that QFII/RQFIIs (without an establishment or place of business in Mainland China or having an establishment in Mainland China but the income so derived in Mainland China is not effectively connected with such establishment) will be temporarily exempt from tax on gains derived from the transfer of Mainland China equity investment assets (including A-shares) effective from 17 November 2014. On the basis of Notice No. 79, it is not expected that the issuers of any Access Product would make any provision for potential tax liabilities and the Manager will not make any provision for the account of the Fund in respect of WIT on capital gains derived through Access Products with exposure to A-shares. Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the PRC authorities announce the expiration of such exemption, the issuers of Access Products may need to commence provisioning for future potential tax liability, which would in turn adversely affect the Net Asset Value of the Fund. Further, there is a possibility of the rules being changed and taxes being applied retrospectively which may result in a lower Net Asset Value as all tax liability will be passed by the issuer of the Access Products to the Fund. In such circumstance, the tax liabilities will only affect Units in issue at that time, and the existing Unitholders and subsequent Unitholders will have to bear a disproportionately higher amount of tax liabilities compared to that borne by persons who have redeemed their Units in the Fund before the taxes were applied.

### *Capital gains derived from funds that invest in A-shares*

The Fund may invest in funds (including ETFs) that invest in A-shares. Such funds may or may not withhold WIT equal to 10% of any potential capital gains which may be payable on a sale of the A-shares. Any such withholding by a fund would be reflected in the net asset value of the relevant fund and, therefore, in the Net Asset Value of the Fund on any Valuation Day. Where a fund has no such withholding or insufficient withholding, any retrospective enforcement and/or changes in Mainland China tax law relating to WIT on capital gains on the sale of A-shares may adversely affect the net asset value of the relevant fund and, therefore, the Net Asset Value of the Fund.

In this regard, any Mainland China tax liability may, if it arises, be payable by the funds that invest in A-shares. However, under the terms of the arrangement between the Fund and the funds that invest in A-shares, the funds may pass on any tax liability to the Fund. Such tax charges would likely be recharged to, and borne by, the Fund under contractual agreement with the funds. As such, the Fund is the ultimate party which bears the risks relating to any Mainland China taxes what are so levied by the relevant Mainland China tax authority.

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. If it transpires that the Fund is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of the Fund may be lowered, as the Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Fund, a disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the Fund.

Upon the availability of a definitive tax assessment or the issue of announcements or regulations by the competent authorities promulgating definitive tax assessment rules, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary.

### Value-added Tax ("VAT") and other surtaxes

Pursuant to Caishui [2016] No.36 ("Circular 36"), with effect from 1 May 2016, the gains derived from the trading of Chinese securities would be subject to VAT instead of business tax.

According to Circular 36 and Caishui [2016] No. 70 ("Circular 70"), gains derived by QFII/RQFIs from the trading of onshore Mainland China securities (including China A-shares and other Mainland China listed securities) is exempt from VAT from 1 May 2016. Based on Circular 70, gains derived from investment in China interbank local currency markets (including money market, bond market and derivatives market) by foreign investors, which are qualified by People's Bank of China, are exempt from VAT from 1 May 2016. Based on Circular 36 and Notice No. 127, the gains derived through the Stock Connect from the trading of China A-shares would/will be exempt from VAT.

However, other than the VAT exemption in the paragraph above, Circular 36 shall apply to levy VAT at 6% on the difference between the selling and purchase prices in trading of those securities.

There is no clear rule on whether there is VAT exemptions on capital gains derived from trading of B-shares by foreign enterprises (including the Fund). Thus, there may be VAT imposed on the Fund for trading of B-shares in Mainland China. The trading of H shares and other kinds of offshore shares should not be subject to VAT.

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

If 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 12% of VAT payable.

### Mainland China Stamp Duty ("SD")

SD is levied on certain taxable documents executed or used in the Mainland China, such as documentation effecting the transfer of equity interests in Mainland Chinese companies, the purchase and sale of A-shares and B-shares, the purchase and sale of goods, contract documents issued for process contracting, construction contracting, property leasing, and other documents listed in the SD Regulations.

Currently, SD on A-shares (including those invested via Stock Connect) and B-shares transactions is only imposed on the seller but not on the purchaser, at the tax rate of 0.1% of the total sales value.

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

According to Notice No. 127, the borrowing and return of listed shares in relation to shares guarantee and short-selling by Hong Kong and overseas investors through the Stock Connect is exempt from SD from 5 December 2016.

### General

Various tax reform policies have been implemented by the Mainland China government in recent years, and existing tax laws and regulations may be revised or amended in the future. There is no assurance that current tax exemptions or incentives will not be abolished in the future. Furthermore, there is a possibility that the current tax laws, rules, regulations and practice in Mainland China and/or the current interpretation or understanding thereof may change in the future and such change(s) may have retrospective effect. The Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Fund. Investors may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Unitholders should seek their own tax advice on their tax position with regard to their investment in the Fund.

## **GENERAL**

### **Reports and Accounts**

The Fund's financial year end is on 31 December in each year. An annual report and audited financial statements in respect of each financial year will be prepared in Hong Kong dollars and in accordance with IFRS. Unaudited semi-annual reports will also be prepared.

Annual and semi-annual reports and financial statements will be available in both English and Chinese.

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

### **Distribution Policy**

In respect of each Class, the Manager has discretion as to whether to not to make any distribution and as to the frequency and amount of distributions.

Currently, it is not envisaged that any distributions will be paid in respect of AUD (hedged) Units, HKD Units, RMB (hedged) Units or USD Units (collectively, the "Accumulation Classes"). Therefore any net income and net capital gains in respect of an Accumulation Class will be accumulated and capitalised, and will be reflected in the relevant Net Asset Value per Unit.

In respect of Class HKD (dist) Units (the "Distribution Class"), subject to the Manager's discretion, dividends will be declared semi-annually on such date which is within a reasonable time period after the end of March and the end of September of each year as may be determined by the Manager (each a "Distribution Date"). It should be noted, however, that there is neither a guarantee that such distributions will be made nor will there be a target level of distribution payout.

Distributions declared in respect of a Class will be paid among the Unitholders of that Class rateably in accordance with the number of Units held by them on the record date as determined by the Manager in respect of the corresponding distribution. For the avoidance of doubt, only Unitholders whose names are entered on the register of Unitholders on such record date shall be entitled to the distribution declared in respect of the corresponding distribution. Any payment of distributions will be made in the relevant Class Currency.

Unless Unitholders have indicated otherwise to the Manager on the subscription of Units, any distributions payable will automatically be reinvested in the subscription of further Units of the relevant Class on the Distribution Date at the prevailing Subscription Price applicable on the Distribution Date. The Manager may determine to make no distributions or make fewer distributions in a financial year at its absolute discretion.

Unitholders may specify on subscription that they wish to receive a cash distribution if a distribution is declared by the Manager provided, however, that distributions will not be paid in cash if the amount of the distribution for the relevant Unitholder amounts to less than HKD1,000 (or its equivalent) or such other amount determined by the Manager from time to time. If Unitholders do not request cash distributions or if the amount of the distribution payable to the relevant Unitholder is less than the minimum amount specified as aforesaid, the distribution to which the Unitholder is entitled will be reinvested in further Units of the relevant Class to be issued at the prevailing Subscription Price applicable on the Distribution Date.

The Manager currently does not intend to pay distributions out of capital or effectively out of capital of the Fund. Should there be any change to this policy on distributions out of or effectively out of capital in the future, the Manager will seek the SFC's prior approval and provide not less than one month's prior notice to the relevant Unitholders.



The Manager will periodically review and reserves the right to make changes to the distribution policy of any Class. Any change to the frequency of distributions is subject to one month's prior notice to the relevant Unitholders.

### Meetings of Unitholders

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

The quorum for all meetings is Unitholders present in person or by proxy representing 10% of the Units for the time being in issue except for the purpose of passing an extraordinary resolution. The quorum for passing an extraordinary resolution is Unitholders present in person or by proxy representing 25% or more of the Units in issue ("Extraordinary Resolution"). 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.

### Transfer of Units

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 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.

The Manager or the Trustee may refuse to enter the name of a transferee in the register of Unitholders or recognise a transfer of any Units if either of them believe that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country, any governmental authority or any stock exchange on which such Units are listed.

### Trust Deed

The Fund was established under the laws of Hong Kong by a Trust Deed dated 25 August 2010, as amended and restated from time to time, with an initial trust fund of HKD10.

In accordance with the terms of the Trust Deed as amended, the Manager has full power to deal in any way with or dispose of the assets of the Fund provided that the Manager shall comply at all times with the investment objectives and policies and investment restrictions and guidelines contained in the constitutive documents of the Fund and this Explanatory Memorandum.

The Trust Deed contains provisions for the indemnification of the parties and their exculpation from liability in certain circumstances.

Under the Trust Deed, the Trustee may remove the Manager if: (a) the Manager goes into liquidation, (b) the Trustee is of the opinion that a change in manager of the Fund is desirable in the interests of the Unitholders and (c) the Unitholders representing not less than 50% by value of all Units outstanding deliver a notice to the Trustee to do so. The Manager may also retire on a voluntary basis under certain other circumstances specified in the Trust Deed.

Unitholders and intending applicants are advised to consult the terms of the Trust Deed.

## **Auditors**

The Manager shall from time to time appoint an accountant or accountants being qualified to act as an auditor or auditors to the Fund (the “Auditors”). Any such Auditors so appointed will be independent of the Trustee and the Manager. The Auditors may voluntarily retire by notice in writing to the Manager, upon which the Manager shall appoint another qualified auditor or auditors in their stead.

Ernst & Young has been appointed by the Manager as the auditors of the Fund.

## **Termination of the Fund**

The Fund shall continue until it is terminated in one of the ways set out below.

The Fund may be terminated by the Trustee in the following events (provided that the Trustee shall certify that in its opinion, the proposed termination is in the interest of Unitholders) namely if (a) within 30 days of the Manager leaving office, 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 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. The Trustee may also terminate the Fund if any law is passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund.

The Fund may be terminated by the Manager (a) if on any date the aggregate Net Asset Value of the Units outstanding in respect of the Fund is less than HKD50 million or (b) if any law is passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund. At least one month’s written notice of any termination will be given to Unitholders. Further, at any time the Unitholders may authorise termination of the Fund by Extraordinary Resolution.

Upon termination of the Fund, the Trustee will arrange for the sale of all investments remaining as part of the assets and discharging all liabilities of the Fund. Thereafter, the Trustee will distribute to the Unitholders, in proportion to the Units held by them, any net cash proceeds derived from the realisation of the assets and available for the purposes of such distribution, provided that the Trustee may retain out of any moneys as part of the assets full provisions for all costs, debts, liabilities, charges, expenses, claims and demands properly incurred or made by the Trustee. Any unclaimed proceeds or other cash held by the Trustee in the event of a termination may at the expiration of twelve months from the date upon which the same became payable be paid into court of competent jurisdiction subject to the right of the Trustee to deduct therefrom any expenses it may incur in making such payment. Please refer to the Trust Deed for further details.

## **Documents Available for Inspection**

Copies of the Trust Deed, this Explanatory Memorandum and the latest annual and semi-annual 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 Trustee and of the Manager at Unit 1006A, 10/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Copies of the Trust Deed can be purchased from the Manager at a nominal amount.

## **Anti-Money Laundering Regulations**

As part of the Trustee’s and the Manager’s responsibility for the prevention of money laundering, the Trustee and/or the Manager may 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 a recognised financial institution; or
- (b) the application is made through a recognised intermediary.

These exceptions will only apply if the financial institution or intermediary referred to above has its head office or is organised within a country that is a member of the Financial Action Task Force or recognised as having sufficient anti-money laundering regulations.

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

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

If any person in Hong Kong involved in the business of the Fund (including the Trustee) has a suspicion or belief that any person is involved in money-laundering activities, that person is required to report such suspicion to an authorised officer pursuant to the Drug Trafficking (Recovery of Proceeds) Ordinance (Cap 405) and the Organised and Serious Crimes Ordinance (Cap 455) of Hong Kong.

### **Liquidity risk management**

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

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

### **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 which have similar investment objectives to those of the Fund.

In addition, the Trustee, the Manager and any of their Connected Persons may contract or enter into any financial, banking or other transaction with one another or with any Unitholder or any company or body

any of whose shares or securities form part of the Fund. The Trustee or the Manager may become the owner of units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee or the Manager. The Trustee, Manager and any of their Connected Persons may buy, hold and deal in any securities, commodities or other property for their own account or for the account of their other customers notwithstanding that similar securities, commodities or other property may be held as part of the Fund. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

The Manager may also enter into trades for the account of the Fund with the accounts of other clients of the Manager or its Connected Persons (“cross trades”) when the Manager considers that, as part of its portfolio management, such cross-trades would be in the best interests of the Unitholders to achieve the investment objective and policy of the Fund. Such cross trades will only be undertaken where (i) the sale and purchase decisions are in the best interests of both the Fund and the other client and fall within the investment objective, restrictions and policies of the Fund and such other client, (ii) the cross trades are executed on arm’s length terms at current market value, and (iii) the reasons for such cross trades are documented prior to execution. Cross trades may also be entered into between house accounts (i.e. account owned by the Manager or any of its Connected Persons over which it can exercise control and influence) and the Fund in accordance with applicable laws and regulations.

It is, therefore, possible that the Trustee, the Manager or their Connected Persons 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 the Unitholders and will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Fund and any of them are on an arm’s length basis.

It is expected that transactions for the Fund may be carried out with or through Connected Persons of the Manager. There is no limit on the volume of transactions which may be conducted with or through such Connected Persons but the Manager will use due care in the selection of such Connected Persons to ensure that they are suitably qualified in the circumstances, and will monitor and ensure that all such transactions are conducted on an arm’s length basis and are consistent with best execution standards. The fees or commissions payable to any such Connected Persons will not be greater than those which are payable at the prevailing market rate for such transactions. All such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the Fund’s annual report.