

# ChinaAMC ESG OFC (the “Company”)

## ChinaAMC Asia ESG Bond Fund (the “Sub-Fund”)

### Notice to Shareholders

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF IN DOUBT, PLEASE SEEK PROFESSIONAL ADVICE.

China Asset Management (Hong Kong) Limited accepts full responsibility for the accuracy of the information contained in this document as at the date of publication and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading.

Capitalised terms used herein shall bear the same meanings as capitalised terms used in the Explanatory Memorandum for the Company and the Sub-Fund dated September 2024, as may be amended and supplemented from time to time (the “**Explanatory Memorandum**”).

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15 December 2025

Dear Shareholders,

#### **Termination of ChinaAMC ESG OFC and ChinaAMC Asia ESG Bond Fund**

Unless otherwise defined in this Notice, capitalised terms used in this Notice shall have the same meaning as defined in the Explanatory Memorandum.

We, China Asset Management (Hong Kong) Limited, as the manager of the Company and the Sub-Fund, wish to notify you that the Directors have decided to terminate the Company and the Sub-Fund i.e. terminate the affairs of the Company and the Sub-Fund. The date on which the Company and the Sub-Fund shall have no assets and liabilities will be on or around 16 January 2026 (the “**Cessation Date**”), and the termination date of the Sub-Fund will be further subject to the approval of the SFC following the Cessation Date.

#### Reasons for termination

According to Clause 261(C) of the instrument of incorporation of the Company effective as of 1 November 2022 (the “**Instrument**”), the Company may be terminated by the Directors in their absolute discretion in the event that, 1 year from the date of the first issue of Shares relating to the first sub-fund of the Company or at any date thereafter, the Net Asset Value of the Company (being the sum of the Net Asset Value of each sub-fund of the Company) is less than USD10,000,000. The Instrument does not require investors’ approval for terminating the Company and the Sub-Fund on the ground set out in Clause 261(A) of the Instrument. Currently, the Sub-Fund is the only sub-fund of the Company.

As at 11 December 2025, the Net Asset Value and the Net Asset Value per Share of the Sub-Fund were USD5.89 million and USD11.2584 respectively. Having taken into account the relevant factors including the interests of the investors as a whole, the current relatively small Net Asset Value of the Sub-Fund, the Directors are of the view that the proposed termination of the Company and the Sub-Fund would be in the best interests of the investors of the Sub-Fund.

Therefore, the Directors have decided to exercise their power under Clause 261(C) of the Instrument to terminate the Company and the Sub-Fund. The Directors have given written notice to the Custodian notifying the Custodian of its proposal to: (i) terminate the Company and the Sub-Fund, (ii) voluntarily seek the deauthorisation of the Company and the Sub-Fund, and (iii) apply for cancellation of registration of the Company and termination of the Sub-Fund, and the Custodian does not object to such proposal.

As required under Clause 263 of the Instrument, no less than one month's notice is hereby given to the investors, notifying them of the proposed termination of the Company and the Sub-Fund. As required under Chapter 10.11 of the SFC's Code on Open-Ended Fund Companies (the "**OFC Code**"), written notification to investors must be made prior to the termination of the Company and the Sub-Fund.

As of and from the date of this Notice:

- (i) the Sub-Fund will no longer be allowed to be marketed to the public in Hong Kong; and
- (ii) the Sub-Fund will not accept any subscription from new or existing investors.

The Sub-Fund will cease dealing on the Last Redemption Day (as defined below).

In order to enable a smooth termination process, the Manager will, depending on the redemptions from existing investors received (if any), start to realise all underlying investments of the Sub-Fund from the date of this Notice and the Sub-Fund may hold a substantial amount of cash and thus not be able to fulfil its investment objective and strategy after the realisation of the Sub-Fund's underlying investments commences

The Manager will apply to the Securities and Futures Commission (the "**SFC**") for withdrawal of authorisation of the Company and the Sub-Fund and their offering documents as well as termination and cancellation of registration of the Company under section 112ZH of the SFO and the termination of the Sub-Fund under section 160(3) of Securities and Futures (Open-ended Fund Companies) Rules as soon as reasonably practicable after the Cessation Date following the realisation of the assets and settlement of liabilities of the Sub-Fund, payment of Distribution and obtaining tax clearance.

#### Actions to be taken by you

From the date of this Notice, you may choose one of the following:

(a) Free Redemption

At any time on or before 4:00 pm (Hong Kong time), being the Sub-Fund's dealing cut-off time, on 22 December 2025 (the "**Last Redemption Day**"), you may redeem your holdings in the Sub-Fund free of redemption charge. To effect redemption on a particular Dealing Day (a "**Redemption Day**"), the redemption request must be received by the Manager no later than the dealing deadline at 4:00 p.m. (Hong Kong time) on the Redemption Day. Please note that your distributor may impose an internal dealing cut-off time which may be earlier than the deadline stated above and may charge redemption, conversion and/or transaction fees.

Redemption proceeds will be paid by telegraphic transfer in the class currency of the Shares to your pre-designated bank account (at your risk and expense), within 5 Business Days after the relevant Redemption Day and in any event within one calendar month after the relevant Redemption Day. For further details on the procedures for the redemption of Shares in the Sub-Fund, please refer to the section headed "REDEMPTION OF SHARES" of the Explanatory Memorandum.

(b) Free Switching

At any time on or before 4:00 pm (Hong Kong time) on the Last Redemption Day, you may inform the Manager of your intention to switch Shares into shares/units in other SFC authorised funds managed by the Manager (a “**New Fund**”) free of charge. Please note that switching fee may be charged by your distributor for each switching request. Such conversion will be effected on the Dealing Day on which the switching request is received prior to the dealing deadline at 4:00 p.m., subject to procedures set out in the Explanatory Memorandum. Your distributor may impose an internal dealing cut-off time which may be earlier than the deadline stated above. Please note that SFC authorisation is not a recommendation or endorsement of a product nor does it guarantee the commercial merits of a product or its performance. It does not mean the product is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

(c) Distribution of Cash Proceeds after the Last Redemption Day

If you take no action before 4:00 pm (Hong Kong time) on the Last Redemption Day, pursuant to Clause 264 of the Instrument, all the assets in the Sub-Fund will be realised and all net cash proceeds derived from the realisation and available for the purposes of distribution will be distributed to you, on or around 6 January 2026, in proportion to your holdings of Shares in the Sub-Fund as at 12:00 pm (Hong Kong time) on the Last Redemption Day (calculated in accordance with the Instrument and the Explanatory Memorandum) (the “**Distribution**”), free of any charges by the Manager. The amount of distribution entitled by each investor who remain invested in the Sub-Fund after the Last Redemption Day (the “**Relevant Investor**”) will be the Sub-Fund’s Net Asset Value as at 29 December 2025 i.e. the date of last valuation of the Sub-Fund to be conducted upon realisation of all assets (the “**Last Valuation Date**”) in proportion to the Relevant Investor’s Shares as at the Last Valuation Date.

Please note the following:

- If you choose to switch Shares into a New Fund, the redemption proceeds will be used to subscribe for shares/units in the New Fund, subject to the provisions of the offering document of the New Fund (including all applicable minimum initial investment amount and minimum holding requirements) except that such conversion will be free of charge, i.e. any subscription fee of the relevant New Fund will not apply. Investors’ attention is drawn to the section “Switching” in the Explanatory Memorandum for the procedures of conversion (for the avoidance of doubt, no switching fee is payable to the Company, the New Fund or the Manager). Please note that switching fee may be charged by your distributor for each switching request.
- Investors are reminded to read and understand the investment objective, risks, policies and fees applicable to the relevant New Fund before investing in such fund, as described in the explanatory memorandum and product key facts statement of the relevant New Fund. There are risks involved with investment in a New Fund. Investors should pay attention to the offering documents of the relevant New Fund, especially the relevant risk disclosures, before making a decision to invest.
- Payment of (if you choose option (a)) the redemption proceeds or (if you choose option (c)) the Distribution will be subject to procedures as set out in the Explanatory Memorandum.

Costs

*Ongoing charges of the Sub-Fund and provision of costs and expenses*

The ongoing charges over a year<sup>#</sup> for Class I USD (Acc) Shares of the Sub-Fund as a percentage of Net Asset Value is 2.06%.

<sup>#</sup> The ongoing charges figure is calculated based on expenses for the period from 1 January 2025 to 11 December 2025, annualised to obtain an estimated figure over a year. This figure may vary from year to year. It represents the sum of the ongoing expenses chargeable to the relevant share class expressed as a percentage of the average Net Asset Value of such share class.

The Manager will set aside a provision of USD 12,000 for the Sub-Fund (the “**Provision**”) immediately after this Notice is published, which is approximately 0.20% of the Net Asset Value of the Sub-Fund as at 11 December 2025. The Custodian has confirmed that it has no objection to the amount of the Provision. The Provision is to discharge the fees of the Custodian and other service providers of the Sub-Fund during the period between the date of this Notice to the Cessation Date.

The ongoing charges figure for the Sub-Fund aforementioned will no longer be applicable and the Provision (in terms of percentage of the Net Asset Value of the Sub-Fund) represents the ongoing charges chargeable to the Sub-Fund from the date of this Notice until the Cessation Date. The Custodian will waive its entitlement to custodian fee from the Last Valuation Date until the Cessation Date. The Manager will waive its entitlement to management fee from the date of this Notice until the Cessation Date.

Any future costs, charges, expenses, claims and demands (including but not limited to any legal costs, auditors’ fees, regulatory maintenance costs and the fees payable to any other service provider to the Sub-Fund) that the Custodian and the Manager may incur or make, during the period between the date of this Notice up to and including the Cessation Date (including if the Cessation Date is extended), in connection with or arising out of the ongoing maintenance of the Sub-Fund (together, the “**Future Costs**”), to the extent not covered by the Provision, will be borne by the Manager. Conversely, where the Provision is in excess of the actual amount of Future Costs until the Cessation Date, such excess will be refunded to the Relevant Investors as part of a further distribution in proportion to the Relevant Investor’s interests in the Sub-Fund as at the Last Valuation Date. Such further distribution (if any) will be made as soon as practicable after the Last Valuation Date. In case a further distribution is made, the Manager will issue an announcement informing Relevant Investors of the date and amount of payment.

#### *Cost of termination and deauthorisation and cancellation of registration of the Company*

The costs and expenses in relation to the termination of the Company and the Sub-Fund (such as legal costs and translation fees, except for the fees for termination audit), and the withdrawal of authorisation of the Company and the Sub-Fund and cancellation of registration of the Company (other than normal operating expenses such as transaction costs and any tax relating to realisation of the assets) from the date of this Notice (if any), will be borne by the Manager. For the avoidance of doubt, the fees of the termination audit, which are approximately USD 19,000, will be borne by the Sub-Fund.

#### *Unamortised establishment costs*

As at the date of this Notice, the Company and the Sub-Fund do not have any unamortised establishment costs.

#### Preparing Termination Audit Report covering the Termination Audit Period

Under Chapter 11.6 of the UT Code, the Manager is required to publish and distribute annual reports containing the information required in Appendix E to the UT Code to investors within four months of the end of the Company and the Sub-Fund’s financial year-end which is 31 December every year. Chapter 11.6 of the UT

Code also provides that, as an alternative to the distribution of printed financial reports, investors may be notified of where such reports, in printed and electronic forms, can be obtained within the relevant time frame.

With a view to minimising operational cost, the Manager will rely on Note (2) to Chapter 11.6 of the UT Code which permits extension of reporting period for the annual report in the case of fund termination. Accordingly, to the extent that the Cessation Date falls within the first four months after the financial year ending 31 December 2025, the annual report for the financial year ending 31 December 2025 will be combined with the termination audit of the Company and the Sub-Fund (the “**Termination Audit Report**”), covering an extended reporting period from 1 January 2025 to the Cessation Date (the “**Termination Audit Period**”). The Termination Audit Report will be published on the Manager’s website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC) as soon as practicable and in any event no later than four months after the Cessation Date.

The Manager will publish the Termination Audit Report as follows:

- (A) the contents of the Termination Audit Report shall comply with the requirements under Chapter 4.5(f) and Appendix E to the UT Code, and all other applicable provisions of the UT Code, other applicable laws and regulations; and
- (B) the Manager shall notify the investors by way of an announcement on its website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC) or before 30 April 2026 (i.e. the due date for issuance of the normal annual report) of, among other things: (i) when the Termination Audit Report will be published; (ii) the start and end dates of the Termination Audit Period; and (iii) where the Termination Audit Report, in printed and electronic forms, can be obtained.

The Manager considers that the investors’ interests will not be prejudiced by the above arrangement. Save as otherwise set out above, the Manager will continue to comply with all the other applicable provisions of the UT Code, the OFC Code, the applicable provisions in the Instrument and other applicable laws and regulations in respect of the Company and the Sub-Fund.

#### Tax implication to Hong Kong investors

##### *Hong Kong tax*

Based on the Manager’s understanding of the law and practice in force at the date of this Notice, as the Sub-Fund is a collective investment scheme authorised under Section 104 of the Securities and Futures Ordinance, profits of the Sub-Fund derived from realisation of its assets are exempt from Hong Kong profits tax. Notwithstanding that profits of the Sub-Fund derived from realisation of its assets are exempt from Hong Kong profits tax, the Sub-Fund may be subject to tax in certain jurisdictions where investments are made, on income or capital gains derived from such investments.

Distribution or further distribution (if any) to the extent of distribution of profits and/or capital of the Sub-Fund should generally not be subject to Hong Kong profits tax by investors in Hong Kong (whether by way of withholding or otherwise). For investors carrying on a trade, profession or business in Hong Kong, profits derived in redemption or disposal of Shares in the Sub-Fund may be subject to Hong Kong profits tax if the profits in question arise in or are derived from such trade, profession or business, sourced in Hong Kong, as well as the Shares are revenue assets of the investors. Ascertaining the classification of a gain as revenue or capital will depend on the particular facts and circumstances of the investors.

The tax implications of the investors' shareholding as a consequence of the termination of the Sub-Fund may vary depending on the law and regulations of their country of residence, citizenship or domicile. Investors should consult their professional tax advisers for tax advice.

### *Mainland China tax*

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

Under the prevailing PRC CIT Law, a China Tax Resident Enterprise ("**TRE**") is subject to CIT on its worldwide income. A foreign enterprise with a "place of effective management" within the PRC is also regarded as a China TRE. The "place of effective management" refers to the place where the exercise, in substance, of the overall management and control of the production and business operation, personnel, accounts and assets is located. A non-TRE with an establishment or a place of business in China shall pay CIT on income derived by such establishment or place from sources in China as well as income derived from outside China that is effectively connected with such establishment or place.

An "establishment or place" is defined under PRC CIT law as an establishment or place in China engaging in production and business operations, including management and business organizations, representative offices, places where natural resources are exploited, labor services are rendered, contractor projects are undertaken, and other establishments or places where production and business activities are undertaken. Business agents who regularly sign contracts, store and deliver goods, etc. on behalf of non-TREs would also be regarded as creating an establishment or place of business in China under CIT law.

Under the CIT law, the standard CIT rate is 25%.

A non-TRE that has no establishment or place in China is taxed only on its China-source income. A unilateral concessionary rate of 10% withholding tax ("**WHT**") will be applied on gross income derived from interest and other China-source passive income unless reduced under a tax treaty or tax arrangement.

The Sub-Fund, together with the Manager, do not intend to operate in a way that would cause the Sub-Fund to be treated as PRC TREs or to have an establishment or a place in the PRC, although this cannot be guaranteed. It is possible, however, that the PRC tax authorities could disagree with such an assessment or that changes in PRC tax law could affect the PRC CIT status of the Sub-Fund.

If the Sub-Fund does not have a place of effective management, an establishment or a place of business in the PRC, Sub-Fund will normally be regarded as a non-TRE.

#### (1) Capital Gains

##### WHT

Under the prevailing PRC tax law, there are no specific rules or regulations governing the CIT treatment on the capital gains derived by foreign investors from trading China bonds. In practice, China tax authorities have not taken active actions to collect CIT / WHT on the capital gains derived by foreign investors from trading China bonds.

According to the Operational Procedures for Overseas Institutional Investors to Enter China Interbank Bond Market prescribed by the People's Bank of China ("**PBOC**") in November 2017, capital gains derived by foreign investors from trading the domestic bond instruments through China Interbank Bond Market is exempt from CIT / WHT. However, it is uncertain how long the exemption will last.

Therefore, the capital gains derived by foreign investors from trading China bonds are more likely than not treated as not subject to PRC CIT / WHT, unless China tax authorities issue specific tax rules in the future to state otherwise.

#### Value-added tax (“**VAT**”)

Pursuant to Circular Caishui [2016] No.36 and Circular Caishui [2016] No.70, VAT exemption would be granted to capital gains derived from bond trading conducted by foreign institutions approved by PBOC through China Interbank Bond Market.

#### Stamp Duty (“**SD**”)

SD is levied on certain taxable documents executed or used in the PRC. The sale or purchase of PRC domestic bonds investments does not fall in the SD taxable scope and are not subject to PRC SD.

#### (2) Interest

##### WHT and VAT

Pursuant to Public Notice 34 jointly issued by Ministry of Finance and State Taxation Administration on 22 November 2021, interest income derived by overseas institutional investors from the domestic bond market are temporarily exempt from CIT / WHT and VAT during the period from 7 November 2021 to 31 December 2025 provided that such bond interest income is not derived by the establishment or place of business of the overseas investors in the PRC or effectively connected with such establishment or place.

However, it is uncertain whether this temporary exemption will be further extended after expiration.

The Sub-Fund currently does not make any tax provision for Mainland China tax, and the Manager does not expect any tax provision to be made from the date of this announcement until the termination of the Company and the Sub-Fund. As such, the Manager does not expect that the Net Asset Value of the Sub-Fund will be impacted by any tax provision. To the best of the Manager's knowledge, the Company and Sub-Fund are not subject to any unresolved tax issues or PRC tax clearance.

#### Documents available for inspection

Copies of the Instrument and the most recent annual reports and the most recent interim report of the Sub-Fund are, together with the Explanatory Memorandum and Product Key Facts Statement of the Sub-Fund, are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager (set out below). The latest version of such documents are also available at the Manager's website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC).

If you have any questions or require further information, please contact the Manager at 37/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong or by telephone at (852) 3406 8686 during office hours.

Yours faithfully,

China Asset Management (Hong Kong) Limited

## **ChinaAMC ESG OFC**

**華夏基金可持續性開放式基金型公司**

**(An open-ended fund company with variable capital and segregated liability between sub-funds)**

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### **EXPLANATORY MEMORANDUM**

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## **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. While section 112S of the SFO provides for segregated liability between sub-funds, the concept of segregated liability is relatively new. Accordingly, where claims are brought by local creditors in foreign courts or under foreign law contracts, it is not yet known how those foreign courts will react to section 112S of the SFO.**

ChinaAMC ESG OFC 華夏基金可持續性開放式基金型公司 (the “Company”) is a public umbrella open-ended fund company incorporated in Hong Kong on 1 November 2022 with variable capital and limited liability. The Company can have a number of sub-funds (each a “Sub-Fund”) with segregated liability among them, which may be exchange-traded fund(s) (“Listed Sub-Fund(s)”) or unlisted (not exchange-traded) fund(s) (“Unlisted Sub-Fund(s)”). China Asset Management (Hong Kong) Limited (the “Manager”) has been appointed as the manager of the Company and each Sub-Fund. HSBC Institutional Trust Services (Asia) Limited (the “Custodian”) has been appointed as the custodian of the Company and each Sub-Fund.

This Explanatory Memorandum only relates to the Unlisted Sub-Fund(s), which as at the date of the Explanatory Memorandum includes ChinaAMC Asia ESG Bond Fund. For information relating to the Listed Sub-Fund(s) (if any), please refer to the prospectus of the relevant Listed Sub-Fund(s).

The Manager and the Directors accept full responsibility for the information contained in this Explanatory Memorandum including the Product Key Facts Statement of each Sub-Fund (together, the “Offering Documents”) as being accurate and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make such information misleading. However, neither the delivery of the Offering Documents nor the offer or issue of Shares shall under any circumstances constitute a representation that the information contained in the Offering Documents is correct as of any time subsequent to the date of its publication. This Explanatory Memorandum including the Product Key Facts Statement of each Sub-Fund may from time to time be updated. Investors should check the Manager’s website at [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC) for the latest version of the Offering Documents.

The Manager also confirms that this Explanatory Memorandum includes particulars given in compliance with the Code on Unit Trusts and Mutual Funds (the “UT Code”), the Code on Open Ended Fund Companies and the “Overarching Principles” of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products for the purposes of giving information with regard to the Shares in each Sub-Fund.

The Company has been registered with the Securities and Futures Commission in Hong Kong (the “SFC”) as an open-ended fund company under Section 112D of the Securities and Futures Ordinance of Hong Kong (the “SFO”). The Company and each Sub-Fund are authorised by the SFC in Hong Kong under Section 104 of the SFO. SFC authorisation or registration is not a recommendation or endorsement of the Company or any Sub-Fund nor does it guarantee the commercial merits of the Company or any Sub-Fund or its performance. It does not mean the Company or a Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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

This Explanatory Memorandum may refer to information and materials included in websites (<http://www.chinaamc.com.hk>). The contents of the website have not been reviewed by the SFC.

No action has been taken in any jurisdiction (other than Hong Kong or as otherwise specified below) that would permit an offering of the Shares or the possession, circulation or distribution of this Explanatory Memorandum or any other offering or publicity material relating to the offering of Shares 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.

**United States:** The Shares have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities law of any state or political sub-division of the United States of America or any of its territories, possessions or other areas subject to its jurisdiction including the Commonwealth of Puerto Rico (collectively, the “United States”). No person has registered nor will register as a commodity pool operator of the Company or any Sub-Fund under the Commodity Exchange Act of 1936, as amended (the “CEA”) and the rules thereunder (the “CFTC Rules”) of the Commodity Futures Trading Commission (the “CFTC”), and the Company and the Sub-Fund(s) have not been and will not be registered under the United States Investment Company Act of 1940, as amended, nor under any other United States federal laws. The Shares are being offered and sold in reliance on an exemption from the registration requirements of the Securities Act pursuant to Regulation S thereunder (“Regulation S”).

Accordingly, the Shares may not be offered, sold, pledged or otherwise transferred except (i) in an “Offshore Transaction” (as such term is defined under Regulation S) and (ii) to or for the account or benefit of a Permitted Transferee.

A “Permitted Transferee” means any person who is not any of:

- (a) a U.S. person as defined in Rule 902(k)(1) of Regulation S;
- (b) a person who comes within any definition of U.S. person for the purposes of the CEA or any CFTC rule, guidance or order proposed or issued under the CEA (for the avoidance of doubt, any person who is not a “Non-United States person” as such term is defined under CFTC Rule 4.7(a)(1)(iv), but excluding, for purposes of subsection (D) thereof, the exception for qualified eligible persons who are not “Non-United States persons”, shall be considered a U.S. person); or
- (c) a “resident of the United States” for purposes of, and as defined in implementing regulations proposed or issued under, Section 13 of the Bank Holding Company Act of 1956, as amended (“BHC Act”).

Transfers of Shares within the United States or to any person other than a Permitted Transferee are prohibited. Any transfer of Shares to a person other than a Permitted Transferee (a “Non-Permitted Transferee”) will be void *ab initio* and of no legal effect whatsoever. Accordingly, any purported transferee of any legal or beneficial ownership interest in a Share in such a transaction will not be entitled to any rights as a legal or beneficial owner of such interest in such Share.

The foregoing restrictions on the offer, sale, pledge or other transfer of Shares to a Non-Permitted Transferee may adversely affect the ability of an investor in the Shares to dispose of the Shares in the secondary market, if any, and significantly reduce the liquidity of the Shares. As a result, the value of the Shares may be materially adversely affected.

As defined in Rule 902(k)(1) of Regulation S, “US person” means:

- (a) Any natural person resident in the United States;

- (b) Any partnership or corporation organized or incorporated under the laws of the United States;
- (c) Any estate of which any executor or administrator is a U.S. person;
- (d) Any trust of which any trustee is a U.S. person;
- (e) Any agency or branch of a non-U.S. entity located in the United States;
- (f) Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;
- (g) Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and
- (h) Any partnership or corporation if:
  - (i) organized or incorporated under the laws of any non-U.S. jurisdiction; and
  - (ii) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) of Regulation D under the Securities Act) who are not natural persons, estates or trusts.

As defined in CFTC Rule 4.7, modified as indicated above, “Non-United States person” means:

- (a) A natural person who is not a resident of the United States;
- (b) A partnership, corporation or other entity, other than an entity organized principally for passive investment, organized under the laws of a non-U.S. jurisdiction and which has its principal place of business in a non-U.S. jurisdiction;
- (c) An estate or trust, the income of which is not subject to United States income tax regardless of source;
- (d) An entity organized principally for passive investment such as a pool, investment company or other similar entity; provided, that units of participation in the entity held by persons who do not qualify as Non-United States persons represent in the aggregate less than 10% of the beneficial interest in the entity, and that such entity was not formed principally for the purpose of facilitating investment by persons who do not qualify as Non-United States persons in a pool with respect to which the operator is exempt from certain requirements of part 4 of the Commodity Futures Trading Commission’s regulations by virtue of its participants being Non-United States persons; and
- (e) A pension plan for the employees, officers or principals of an entity organized and with its principal place of business outside the United States.

As defined in the CFTC’s proposed interpretive guidance and policy statement regarding cross-border application of certain swaps provisions of the CEA, 78 Fed. Reg. 45292 (Jul. 26, 2013), “U.S. person” means:

- (a) A natural person who is a resident of the United States;
- (b) Any estate of a decedent who was a resident of the United States at the time of death;
- (c) Any corporation, partnership, limited liability company, business or other trust, association, joint-stock company, fund or any form of enterprise similar to any of the foregoing (other than an entity described in prongs (d) or (e), below) (a “legal entity”), in each case that is organized or incorporated under the laws of a state or other jurisdiction in the United States or having its principal place of business in the United States;
- (d) Any pension plan for the employees, officers or principals of a legal entity described in prong (c), unless the pension plan is primarily for foreign employees of such entity;

- (e) Any trust governed by the laws of a state or other jurisdiction in the United States, if a court within the United States is able to exercise primary supervision over the administration of the trust;
- (f) any commodity pool, pooled account, investment fund, or other collective investment vehicle that is not described in prong (c) and that is majority-owned by one or more persons described in prong (a), (b), (c), (d), or (e), except any commodity pool, pooled account, investment fund, or other collective investment vehicle that is publicly offered only to non-U.S. persons and not offered to U.S. persons;
- (g) Any legal entity (other than a limited liability company, limited liability partnership or similar entity where all of the owners of the entity have limited liability) that is directly or indirectly majority-owned by one or more persons described in prong (a), (b), (c), (d), or (e) and in which such person(s) bears unlimited responsibility for the obligations and liabilities of the legal entity; and
- (h) Any individual account or joint account (discretionary or not) where the beneficial owner (or one of the beneficial owners in the case of a joint account) is a person described in prong (a), (b), (c), (d), (e), (f), or (g).

As defined in the implementing regulations issued under Section 13 of the BHC Act, SEC Release No. BHCA-1; File No. S7-41-11, “resident of the United States” means a person that is a “U.S. person” as defined in rule 902(k) of the SEC’s Regulation S.

Each person who offers, sells, pledges or otherwise transfers Shares has exclusive responsibility for ensuring that its offer, sale, pledge or other transfer is not to or for the account or benefit of any person other than a Permitted Transferee as such term is defined as of the date of such offer, sale, pledge or other transfer.

The Shares have not been approved or disapproved by the United States Securities and Exchange Commission (“SEC”) or any other regulatory agency in the United States, nor has the SEC or any other regulatory agency in the United States passed upon the accuracy or adequacy of this document or the merits of the Shares. Any representation to the contrary is a criminal offence. Furthermore, the Shares do not constitute, and have not been marketed as, contracts for the sale of a commodity for future delivery (or options thereon) subject to the CEA, and neither trading in the Shares nor this document has been approved by the CFTC under the CEA, and no person other than a Permitted Transferee may at any time trade or maintain a position in the Shares.

Prospective applicants for the Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries or regions of their respective citizenship, residence or domicile which might be relevant to the subscription, holding or disposal of Shares.

## **Questions and Complaints**

Investors may raise any questions on or make any complaints about the Company and/or the Sub-Fund(s) by contacting the Manager at its address as set out in the Directory of this Explanatory Memorandum, or by phone at its telephone number: (852) 3406 8686.

## **DIRECTORY**

<b>Manager</b>	<b>China Asset Management (Hong Kong) Limited</b> 37/F, Bank of China Tower 1 Garden Road Central Hong Kong  Telephone No.: +852 3406 8686
<b>Custodian</b>	<b>HSBC Institutional Trust Services (Asia) Limited</b> 1 Queen's Road Central Hong Kong
<b>Administrator</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b> 1 Queen's Road Central Hong Kong
<b>Registrar</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b> 1 Queen's Road Central Hong Kong
<b>Legal Advisor</b>	<b>Simmons &amp; Simmons</b> Level 30, One Taikoo Place 979 King's Road Hong Kong
<b>Auditors</b>	<b>Ernst &amp; Young</b> 22/F, CITIC Tower 1 Tim Mei Avenue Hong Kong

## **DEFINITIONS**

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

<b>“A-Shares”</b>	means shares issued by companies incorporated in Mainland China and listed on the SSE or the SZSE, traded in RMB and available for investment by domestic investors through Stock Connect, and QFIs.
<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 The Hongkong and Shanghai Banking Corporation Limited, or such other person or persons for the time being duly appointed as administrator(s) hereof in succession thereto, acting in its capacity as administrator of each Sub-Fund.
<b>“Appendix”</b>	means an appendix to this Explanatory Memorandum containing information in respect of a particular Sub-Fund.
<b>“B-Shares”</b>	means shares issued by companies listed on the SSE or the SZSE, traded in foreign currencies and available for investment by domestic investors and foreign investors.
<b>“Base Currency”</b>	in relation to a Sub-Fund, means the currency of account of the Sub-Fund as specified in the relevant Appendix.
<b>“Business Day”</b>	means, unless otherwise specified in the relevant Appendix in respect of a particular Sub-Fund, 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 Custodian 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 Custodian determine otherwise.
<b>“China” or “PRC”</b>	means the People’s Republic of China.
<b>“Class”</b>	means a class of Shares of the Sub-Fund.
<b>“Class Currency”</b>	means the currency of denomination of a Class.
<b>“Company”</b>	means ChinaAMC ESG OFC 華夏基金可持續性開放式基金型公司.
<b>“Connected Person”</b>	<p>has the meaning as set out in the Code on Unit Trusts and Mutual Funds issued by the SFC which at the date of the Explanatory Memorandum means, in relation to a company:</p> <p>(a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that</p>

company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or

- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or
- (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

**“Custodian”**

means HSBC Institutional Trust Services (Asia) Limited or such other person or persons for the time being duly appointed as Custodian hereof in succession thereto, acting in its capacity as Custodian of the Scheme Property (including investments and uninvested cash) of the Company and each Sub-Fund.

**“CSDCC”**

means the China Securities Depository and Clearing Co., Ltd.

**“CSRC”**

means the China Securities Regulatory Commission.

**“Dealing Day”**

each Business Day or such other day or days as may be specified from time to time in the relevant Appendix, and/or such other day or days the Manager may from time to time in consultation with the Custodian determine, either generally or in respect of a particular Class or Classes of Shares provided that a Dealing Day for the issue of a Class of Shares may be a different day or days from the Dealing Day for the redemption of such Class of Shares.

**“Dealing Deadline”**

means 4:00 pm (Hong Kong time) on the relevant Dealing Day, or such other time as may be specified in the relevant Appendix.

**“Directors”**

means the directors of the Company for the time being or the directors of the Company present at a meeting of directors at which a quorum is present and includes any committee of the Directors duly constituted for the purposes relevant in the context in which any reference to the Directors appears or the members of such committee present at a meeting of such committee at which a quorum is present, and “Director” shall be construed accordingly.

**“Entities Within the Same Group”**

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

**“FMCC”**

means the Fund Manager Code of Conduct issued by the SFC, as amended from time to time and supplemented by published guidelines or other guidance issued by the SFC.

**“Government and other Public Securities”**

has the meaning as set out in the UT Code which as 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>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the People’s Republic of China.
<b>“Hong Kong Dollars” or “HKD”</b>	means the currency of Hong Kong.
<b>“Hong Kong Stock Exchange”</b>	means The Stock Exchange of Hong Kong Limited.
<b>“IFRS”</b>	means International Financial Reporting Standards issued by the International Accounting Standards Board.
<b>“Index”</b>	means the index, if any, against which an Index Tracking Sub-Fund may be benchmarked or may otherwise be referenced as set out in the relevant Appendix.
<b>“Index Tracking Sub-Fund”</b>	means a Sub-Fund with a principal objective to track, replicate or correspond to a financial index or benchmark, with an aim of providing or achieving investment results or returns that closely match or correspond to the performance of the Index that it tracks.
<b>“Initial Offer Period”</b>	in respect of each Class, means the period during which Shares of that Class are offered for subscription at a fixed price, details of which are set out in the section headed “Subscription of Shares” below.
<b>“Instrument”</b>	means the instrument of incorporation of the Company filed to the Companies Registry of Hong Kong on, and effective as of, 1 November 2022, including its Schedules and Appendices, as amended from time to time.
<b>“Laws and Regulations”</b>	means all applicable laws and regulations including the SFO, OFC Rules, the OFC Code, the Products Handbook (including the UT Code) and the FMCC.
<b>“Mainland China” or “Mainland”</b>	means 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>“Manager”</b>	means China Asset Management (Hong Kong) Limited.
<b>“Net Asset Value”</b>	means the net asset value of the Sub-Fund, of a Class or of a Share, as the context may require, calculated in accordance with the provisions of the Instrument as summarised below under the section headed “Valuation” below.
<b>“OFC Code”</b>	means the Code on Open Ended Fund Companies issued by the SFC (as amended, or replaced, from time to time).
<b>“OFC Rules”</b>	means Securities and Futures (Open-ended Fund Companies) Rules (Cap. 571AQ), as amended from time to time.
<b>“PBOC”</b>	means the People’s Bank of China.

<b>“Product Handbook”</b>	means the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products issued by the SFC, as amended from time to time and supplemented by published guidelines or other guidance issued by the SFC.
<b>“QFI”</b>	means a qualified foreign investor approved pursuant to the relevant PRC regulations (as amended from time to time) to invest in PRC domestic securities and futures with funds overseas.
<b>“Redemption Price”</b>	means the price at which Shares will be redeemed as described in the section headed “Payment of Redemption Proceeds” below.
<b>“RMB” or “Renminbi”</b>	means the Renminbi Yuan, the currency of the PRC.
<b>“Registrar”</b>	means The Hongkong and Shanghai Banking Corporation Limited or such person as may from time to time be appointed by the Company (and acceptable to the Manager) as registrar in respect of each Sub-Fund to keep the register of the Shareholders of the Sub-Fund.
<b>“SAFE”</b>	means the State Administration of Foreign Exchange of the PRC.
<b>“SAT”</b>	means the State Administration of Taxation of the PRC.
<b>“Scheme Property”</b>	means scheme property of the Company attributable to a Sub-Fund.
<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>“Securities Market”</b>	means any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such securities are regularly traded.
<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>“Share”</b>	means a share in the Company of such number of undivided shares or such fraction of an undivided share of a Sub-Fund of the Company to which a Share relates as is represented by a Share of the relevant class and, except where used in relation to a particular class of Share, a reference to Shares means and includes Shares of all classes.
<b>“Shareholder”</b>	means a holder for the time being Shares of the Company.
<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>“Sub-Fund”</b>	means a separate part of the Scheme Property of the Company which is established pursuant to the Instrument.
<b>“Subscription Price”</b>	means the price at which Shares are issued as described in the section headed “Subscription of Shares” below.
<b>“SZSE”</b>	means the Shenzhen Stock Exchange.
<b>“Unauthorised US Person”</b>	means a US person, as defined for the purposes of the United States federal securities, commodities and tax laws, including (i) a US person within the meaning of Rule 902 of the United States Securities Act of 1933, or (ii) any person that would not qualify as a Non-United States person within the meaning of United States Commodity Futures Trading Commission Rule 4.7(a)(1)(iv), or (iii) persons who are resident in the United States at the time the Shares are offered or sold.
<b>“US dollars” or “USD”</b>	means the currency of the United States of America.
<b>“UT Code”</b>	means the Code on Unit Trusts and Mutual Funds issued by the SFC, as amended from time to time and supplemented by published guidelines or other guidance issued by the SFC.
<b>“Valuation Day”</b>	means each Business Day on which the Net Asset Value of a Sub-Fund and/or the Net Asset Value of a Share or a Class falls to be calculated and in relation to each Dealing Day of any class or classes of Shares means either such Dealing Day or such Business Day or day as the Manager may from time to time determine either generally or in relation to a particular Sub-Fund or Class.
<b>“Valuation Point”</b>	means the close of business in the last relevant market to close on a relevant Valuation Day or such other time on that day or such other day as the Manager may from time to time determine either generally or in relation to a particular Sub-Fund or Class.

## **INTRODUCTION**

### **The Company**

The Company is a public umbrella open-ended fund company with variable capital with limited liability, which was incorporated in Hong Kong under the SFO on 1 November 2022 with the business registration number 74559350. It is constituted by way of its Instrument filed to the Companies Registry of Hong Kong on, and effective as of 1 November 2022.

The Company is registered with the SFC under Section 112D of the SFO. The Company and each Sub-Fund is authorised as a collective investment scheme by the SFC under Section 104 of the SFO. SFC registration or authorisation is not a recommendation or endorsement of the Company or a Sub-Fund nor does it guarantee the commercial merits of the Company, any Sub-Fund or their performance. It does not mean that the Company or a Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

### **The Sub-Fund(s)**

The Company may issue different classes of Shares and the Company shall establish a separate pool of assets in respect of each Sub-Fund (each such separate pool of assets a “Sub-Fund”) to which one or more class of Shares shall be attributable. The assets of a Sub-Fund will be invested and administered separately from the other assets of the Company. All assets and liabilities attributable to each Sub-Fund shall be segregated from the assets and liabilities of any other Sub-Funds, and shall not be used for the purpose of, or borne by the assets of, any other Sub-Fund. Each Sub-Fund will have its own Appendix of this Explanatory Memorandum.

The Company reserves the right to establish other Sub-Funds, which may be Listed Sub-Funds or Unlisted Sub-Funds, and/or issue further classes of Shares relating to a Sub-Fund or Sub-Funds in the future in accordance with the provisions of the Instrument.

## **THE MANAGEMENT OF THE COMPANY AND SUB-FUND(S)**

### **The Directors**

The Directors of the Company are as follows:

#### *GAN Tian*

Mr. GAN Tian is currently the Chief Executive Officer and the Chief Investment Officer of the Manager. Mr. Gan joined China Asset Management Co., Ltd. in 2008 as a portfolio manager. Before joining China Asset Management Co., Ltd., Mr Gan has worked in Guotai Junan Securities and Guotai Junan Assets (Asia) Ltd. Mr. Gan holds Master degrees from University of Reading and University of Leicester in the United Kingdom. He also holds a Bachelor's degree from Sichuan University in the PRC.

#### *LI Fung Ming*

Mr. LI Fung Ming is currently a Managing Director and the Chairman of Investment Committee of the Manager. Before joining the Manager in 2012, Mr. Li worked as a Managing Director, Head of China Research, Chief China Strategist and Head of Asian Autos and Auto Parts Research of JP Morgan Securities (Asia Pacific) Limited. Prior to that, he has also worked in Indosuez W. I. Carr Securities and China Guotai Securities. Mr. Li holds a Master of Arts degree from Shanghai University of International Business and Economics, and a Bachelor degree in Economics from Jiangsu University of Technology.

### **The Manager**

The Manager of the Company is China Asset Management (Hong Kong) Limited.

The Manager is a fully-owned subsidiary of China Asset Management Co., Ltd. ("ChinaAMC"). Established on 9 April 1998 with approval from the CSRC, ChinaAMC is one of the first nation-wide fund management firms in the PRC and is currently one of the largest fund management companies in the PRC in terms of assets under management (RMB1,890.5 billion as of 31 December 2023).

The Manager was established in 2008 as ChinaAMC's first venture in expanding its overseas activities. The Manager is now an integral part and extension of ChinaAMC's overseas investment and research team, providing international clients with investment products and discretionary investment management services.

The Manager was incorporated in Hong Kong with limited liability on 30 September 2008 and is licensed by the SFC to conduct types 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance with CE number ARS988.

Under the Instrument, the Manager is responsible for the management of the assets of the Company and each Sub-Fund. The Manager is also responsible, in conjunction with the Custodian, for the maintenance of the financial reports and records of the Company and each Sub-Fund as well as certain other administrative matters relating to the Company and each Sub-Fund.

The Manager may appoint investment managers or investment delegates in relation to specific Sub-Funds (details of any such appointments are set out in the relevant Appendix), subject to the approval of the SFC and at least one month's prior notice to Shareholders (where applicable). Where the investment management functions in respect of a Sub-Fund are delegated to third party investment managers or investment delegates, the Manager will conduct on-going supervision and regular monitoring of the competence of such delegates to ensure that the Manager's accountability to investors is not diminished, and although the investment management role of the Manager may

be sub-contracted to third parties, the responsibilities and obligations of the Manager may not be delegated.

### **The directors of the Manager**

The directors of the Manager are:

#### *LI Yimei*

Ms. LI Yimei is currently a Director, the General Manager and the Deputy Secretary of the Party Committee of China Asset Management Co., Ltd. and the Chairwoman of the Board of Directors of the Manager and the Executive Director of China Equity Fund Management (Beijing) Co., Ltd. Ms. Li previously worked as the Deputy General Manager, Director of Sales, Director of Marketing, General Manager of Fund Marketing Department and concurrent administrative person in charge of the Data Center of China Asset Management Co., Ltd., Executive Director and General Manager of Shanghai China Wealth Management Company Limited, Director of E-Capital Transfer Co., Ltd. etc. Ms. Li holds a Bachelor of Economics from Renmin University of China, a Master of Economics from Renmin University of China and a Master in Public Policy from Harvard University.

#### *YANG Kun*

Mr. YANG Kun is currently a Deputy General Manager, Director of Investment and a member of the Party Committee of China Asset Management Co., Ltd., and a Director of the Manager. Mr. Yang previously worked as the Finance Manager of China Foreign Economy and Trade Trust Co., Ltd, the Portfolio Manager Assistant of Baoying Fund Management Co., Ltd, the Manager of Investment Department of Yimin Asset Management Co., Ltd, the Deputy General Manager of Equity Investment Department of China Asset Management Co., Ltd, etc. Mr. Yang holds a Master of Business Administration from Guanghua School of Management, Peking University.

#### *SUN Liqiang*

Mr. SUN Liqiang is currently the Chief Financial Officer and administrative person in charge of Finance Department of China Asset Management Co., Ltd., a Supervisor of China Capital Management Co., Limited, a Supervisor of Shanghai China Wealth Management Co., Ltd, and a Director of the Manager. Mr. Sun previously worked at Planning and Finance Department of Shenzhen Airlines Company Limited. He previously worked as the Deputy Head of Fund Operations Department and Deputy Head of Finance Department of China Asset Management Co., Ltd. etc. Mr. Sun holds a Bachelor of Accounting Management from Central University of Finance and Economics.

#### *GAN Tian*

Please refer to Mr. Gan's biography under the section headed "The Directors" above.

#### *LI Fung Ming*

Please refer to Mr. Li's biography under the section headed "The Directors" above.

### **The Custodian**

The Custodian of the Company is HSBC Institutional Trust Services (Asia) Limited, which is incorporated in Hong Kong and is registered as a trust company under the Trustee Ordinance in Hong Kong (Chapter 29 of the Laws of Hong Kong).

Under the Custodian Agreement, the Custodian is responsible for the safekeeping of the Scheme Property, subject to the provisions of the Instrument and the SFO.

The Custodian may appoint a person or persons (including a Connected Person of the Custodian) to be agent, nominee, custodian, joint custodian, co-custodian and/or sub-custodian to hold certain assets of any Sub-Fund and may empower its appointed sub-custodian to further appoint nominees, agents and/or delegates provided that such appointment is made with no objection in writing by the Custodian. The Custodian may also appoint delegates for the performance of its duties, powers or discretions under the Custodian Agreement. The Custodian is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and monitoring of such persons and, (b) be satisfied that such persons retained remain suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the Sub-Fund(s) provided however that if the Custodian has discharged its obligations set out in (a) and (b) above, the Custodian shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any such person(s) not being the Custodian's Connected Person appointed as agents, nominees, custodians or joint custodians of certain assets of any Sub-Fund. The Custodian however shall remain liable for any act or omission of any such person that is a Connected Person of the Custodian and that is appointed as agent, nominee, custodian, joint custodian, co-custodian and/or sub-custodian to hold certain assets of any Sub-Fund as if the same were the acts or omissions of the Custodian. The Custodian shall not be liable for any act or failure to act by the Custodian that may arise directly or indirectly in connection with the Custodian Agreement, other than any liability which is caused directly by negligence or fraud or wilful default of the Custodian.

The Custodian shall not be liable for: (a) any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other central depositories or clearing system or (b) the custody or control of any investments, assets or other property which is under the custody or control of or on behalf of a lender in respect of any borrowing made by the Custodian for the purposes of the Company or any Sub-Fund.

Subject as provided in the Custodian Agreement, the Custodian and its officers, employees, agents and sub-custodians are entitled to be indemnified from the assets of the relevant Sub-Fund against all liabilities suffered or incurred by the Custodian in connection with its duties under the Custodian Agreement, including but not limited to liabilities incurred as a result of the acts or omissions of the Company, the relevant Sub-Fund or any other person in connection with the Custodian Agreement. Please see further description in "Indemnities of the Custodian" under the section headed "GENERAL".

In addition, subject to any applicable Laws and Regulations, the Custodian shall not be responsible for or incur any liability for matters prescribed under the Instrument, including, without limitation, (i) any error of law or matter or thing done or omitted to be done in good faith, (ii) authenticity of any signature or seal affixed to any documents affecting the title to or transmission of shares or investments, (iii) acting upon any resolutions purporting to have been passed at any meeting of the Shareholders in respect whereof minutes shall have been made and signed or passed in accordance with terms of the Instrument, (iv) any consequential, special or indirect loss or punitive damages arising under or in connection with the Instrument and the Custodian Agreement, whether in contract, in tort, by law or otherwise.

Notwithstanding the aforesaid, the Custodian is neither exempted from any liability to Shareholders imposed under Hong Kong law nor breaches of trust through fraud or negligence nor may it be indemnified against such liability by Shareholders or at Shareholders' expense. Subject to the applicable law and the provisions of the Custodian Agreement and the Instrument, the Custodian shall not, in the absence of fraud, negligence or wilful default on the part of the Custodian, be liable for any losses, costs or damage to the Company, any Sub-Fund or any Shareholder.

The Custodian will remain as the primary custodian of the Company until it retires or is removed. The circumstances under which the Custodian may retire or be removed are set out in the

Custodian Agreement. Where any Sub-Fund is authorised pursuant to section 104 of the Securities and Futures Ordinance, any change in the Custodian is subject to the SFC's prior approval and the Custodian will remain as the custodian of the Company until a new primary custodian is appointed. Shareholders will be duly notified of any such changes in accordance with the requirements prescribed by the SFC.

The Custodian is not responsible for the preparation or issue of this Explanatory Memorandum and therefore accepts no responsibility for any information contained in this Explanatory Memorandum. Neither the Custodian nor any of its subsidiaries, affiliates, directors and other officers, shareholders, servants, employees, agents or permitted delegates accept any responsibility or liability for any information contained in this Explanatory Memorandum other than the description under this section headed "The Custodian".

### **The Administrator and Registrar**

The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") has been appointed as the Administrator of each Sub-Fund. HSBC is a bank incorporated under the laws of Hong Kong and is an "authorised institution", having a valid bank licence under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong). In its role as Administrator, HSBC shall carry out certain financial, administrative functions and other services in relation to each Sub-Fund on its behalf and is responsible for, among other things: (i) calculating the Net Asset Value and Net Asset Value per Share of any class relating to each Sub-Fund, and (ii) the general administration of each Sub-Fund, which includes the proper book keeping of the each Sub-Fund, and arranging the administration of the issue and redemption of Shares of each Sub-Fund.

HSBC also acts as the Registrar for each Sub-Fund under the terms of the Fund Administration Agreement, unless otherwise stated in the relevant Appendix. The Registrar provides services in respect of the establishment and maintenance of the register of Shareholders of each Sub-Fund.

Subject as provided in the Fund Administration Agreement, HSBC, its delegated affiliates, directors, officers and employees of each of them, are entitled to be indemnified by the Company out of the Scheme Property of a Sub-Fund against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, legal costs, expenses or disbursements of any kind or nature whatsoever other than those resulting from the fraud, willful default or negligence on the part of HSBC, its delegated affiliates, directors, officers, employees and each of them which may be imposed on, incurred by or asserted against HSBC, its delegated affiliates, directors, officers, employees and each of them, as a result of or in connection with performing the services under the Fund Administration Agreement between HSBC and the Company for and on behalf of the relevant Sub-Fund.

In performing the services under the Fund Administration Agreement, HSBC is entitled, without verification or further enquiry or liability, to rely on pricing information in relation to specified investments held by the Company and each Sub-Fund, which would include information provided by the Manager, or, in the absence of any such price sources, any price sources on which HSBC may choose to rely. Without prejudice to the generality of the foregoing, HSBC is not liable or otherwise responsible for any loss suffered by any person other than losses resulting from negligence, willful default or fraud on the part of HSBC or any affiliate by reason of any inaccuracy, error or delay (whether as a result of deliberate action or otherwise) in any pricing or valuation information provided by pricing agents, pricing sources or pricing models provided by any person, including, without limitation, by the manager, administrator or valuation agent of any fund or portfolio into which the Company and the relevant Sub-Fund invest or for any inaccuracy, error or delay (whether as a result of deliberate action or otherwise) in information (including, without limitation, pricing or valuation information) supplied to HSBC.

HSBC will use reasonable endeavours to independently verify the price of any assets or liabilities of the Company and each Sub-Fund using its network of automated pricing services, brokers,

market makers, intermediaries or using other pricing sources or pricing models provided by any person.

In the absence of readily available independent pricing sources, HSBC may rely solely upon any valuation or pricing information (including, without limitation, fair value pricing information) about any such assets or liabilities of the Company and each Sub-Fund (including, without limitation, private equity investments) which is processed by it or provided to it by: (i) the Manager, the Company, the Directors (or other governing body); and/or (ii) third parties including, but not limited to, any valuer, third party valuation agent, intermediary or other third party including, but not limited to, those appointed or authorised by the Manager, the Company, the Directors (or other governing body) to provide pricing or valuation information in respect of the Scheme Property or liabilities to HSBC, subject to the Fund Administration Agreement. HSBC is not liable for any loss suffered by any person as a result of HSBC not providing this information for any such asset or liability of the Company and the relevant Sub-Fund.

HSBC in no way acts as guarantor or offeror of the Shares of the Company or any underlying investment. HSBC is a service provider to the Company in respect of each Sub-Fund and has no responsibility or authority to make investment decisions, or render investment, commercial, accounting, legal or any other advice whatsoever, with respect to the Scheme Property. HSBC is not responsible for, and accepts no responsibility or liability for any losses suffered by the Company or any Sub-Fund or any investors in the Company or any Sub-Fund as a result of any failure by the Manager or the Directors (or other governing body), as applicable, to adhere to any investment objective, investment policy, investment restrictions, borrowing restrictions, operating guidelines or other restrictions applicable to the Company and the relevant Sub-Fund.

Subject to the Fund Administration Agreement, HSBC is not liable or otherwise responsible for any loss suffered by any person by reason of (i) any act or omission of any person prior to the commencement date of the Fund Administration Agreement, (ii) any defect, error, inaccuracy, breakdown or delay in any product or service provided to HSBC by any third party service provider or (iii) any inaccuracy, error or delay in information provided to HSBC by or for the Company or any Sub-Fund or the Manager (including any broker, market maker or intermediary or any other third party). HSBC is not otherwise liable for any loss in connection to the services provided to the Company or any other person unless direct loss is sustained as a result of its fraud, willful default or negligence.

In addition, subject to any applicable Laws and Regulations, HSBC shall not be responsible for or incur any liability for matters prescribed under the Instrument, including, without limitation, (i) any error of law or matter or thing done or omitted to be done in good faith, (ii) authenticity of any signature or seal affixed to any documents affecting the title to or transmission of Shares or of investments, (iii) acting upon any resolutions purporting to have been passed at any meeting of the Shareholders in respect whereof minutes shall have been made and signed or passed in accordance with terms of the Instrument, or (iv) any consequential, special or indirect loss or punitive damages arising under or in connection with the Instrument and the Fund Administration Agreement, whether in contract, in tort, by law or otherwise.

Under the terms of the Fund Administration Agreement, HSBC is permitted to delegate certain of its functions and duties to HSBC's affiliates as permitted by applicable Laws and Regulations, provided that HSBC will remain responsible for the performance of its affiliates.

The Fund Administration Agreement provides that the appointment of the HSBC in its capacity as the Administrator, the Registrar and the valuation agent may be terminated without cause by the Company by giving at least 90 days' prior notice in writing to HSBC. The Fund Administration Agreement may be terminated with immediate or subsequent effect by written notice in certain specified circumstances (e.g., in circumstances where a party to the Fund Administration Agreement has committed a material breach of the terms of such agreement).

HSBC will be entitled to the fees described in the section headed “EXPENSES AND CHARGES” below and to be reimbursed for all costs and expenses in accordance with the provisions of the Fund Administration Agreement.

HSBC is not responsible for the preparation or issue of this Explanatory Memorandum and therefore accepts no responsibility for any information contained in this Explanatory Memorandum other than with respect to the description above in respect of the Administrator and the Registrar. Neither the Administrator, and Registrar nor any of its subsidiaries, affiliates, directors and other officers, shareholders, servants, employees, agents or permitted delegates accept any responsibility or liability for any information contained in this Explanatory Memorandum other than the description under this section headed “The Administrator and Registrar”.

### **The Auditors**

The Directors have appointed Ernst & Young to act as the auditor of the Company and each Sub-Fund (the “Auditor”). The Auditor is independent of the Manager and the Custodian.

### **Conflicts of Interest and Soft Dollars**

The Manager and the Custodian may, from time to time, act as manager, sub-investment manager, investment delegate, custodian or in such other capacity in connection with any collective investment scheme separate and distinct from the Company and each Sub-Fund and retain any profit or benefit made in connection therewith.

In addition:

- (a) The Manager or any of its Connected Persons may purchase and sell investments for the account of a Sub-Fund as agent for the Sub-Fund or deal with any Sub-Fund as principal with the prior written consent of the Custodian.
- (b) The Custodian, 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 Shareholder or any company or body any of whose shares or securities form part of the relevant Sub-Fund's assets.
- (c) The Custodian or the Manager or any of their Connected Persons may become the owner of Shares and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Custodian or the Manager or any of their Connected Persons.
- (d) The Custodian, the 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 by a Sub-Fund.
- (e) Any arrangements for the borrowing or deposit of any monies for the account of a Sub-Fund may be made with any of the Custodian, the Manager, any investment delegate or any of their Connected Persons being a banker or other financial institution provided that such person shall charge or pay (as the case may be) interest or fees at a rate or amount no higher (in the case of a borrowing) or lower (in the case of a deposit) than the prevailing rates or amounts for transactions of a similar type, size and term, in the same currency and with institutions of similar standing, negotiated at arm's length in accordance with ordinary and normal course of business. Any such deposits shall be maintained in a manner that is in the best interests of Shareholders.

- (f) Neither the Custodian nor the Manager nor any of their Connected Persons shall be liable to account to each other or to any Sub-Fund or to the Shareholders for any profits or benefits made or derived from or in connection with any such transaction mentioned above.

It is, therefore, possible that any of the Custodian, the Manager or any of their Connected Persons may, in the course of business, have potential conflicts of interest with a Sub-Fund. Each will, at all times, have regard in such event to its obligations to the Sub-Fund and the Shareholders and will endeavour to ensure that such conflicts are resolved fairly.

Subject to the Laws and Regulations and the Instrument, the Manager, its delegate or any of its Connected Persons may enter into portfolio transactions for or with a Sub-Fund as agent in accordance with normal market practice, provided that commissions charged to the Sub-Fund in these circumstances do not exceed customary full service brokerage rates. If a broker does not provide research or other lawful services in addition to brokerage execution, such broker will generally charge a brokerage commission that is discounted from customary full service brokerage rates. Where the Manager invests a Sub-Fund in units or shares of a collective investment scheme managed by the Manager, its delegates or any of its Connected Persons, the manager of the scheme in which the investment is being made by the Sub-Fund must waive any preliminary or initial charge which it is entitled to charge for its own account in relation to the acquisition of units or shares and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any of its Connected Persons) borne by the Sub-Fund.

None of the Manager, its delegates (including investment delegates if any) or any of their Connected Persons shall, retain any cash commission rebates or other payment or benefit (except as otherwise provided for in this Explanatory Memorandum or in the Instrument) received from a third party (either directly or indirectly) arising out of the sale or purchase or loan of investments for a Sub-Fund, and any such rebates or payments or benefits which are received shall be credited to the account of the Sub-Fund.

The Manager, its delegates (including investment delegates, if any) or any of their Connected Persons may receive, and are entitled to retain, goods, services or other benefits, such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment related publication (known as soft dollar benefits) which are of demonstrable benefit to a Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund or of the Manager and/or any of its Connected Persons in providing services to the relevant Sub-Fund (as may be permitted under the UT Code, applicable rules and regulations), from brokers and other persons through whom investment transactions are carried out ("brokers") provided that the quality of transaction execution is consistent with best execution standards, brokerage rates are not in excess of customary institutional full-service brokerage rates and the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. For the avoidance of doubt, such goods and services do not include travel accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the relevant Sub-Fund's annual report.

The services of the Custodian and the Administrator provided to the Company and each Sub-Fund are not deemed to be exclusive and the Custodian and the Administrator shall be free to render similar services to others so long as their services hereunder are not impaired thereby and to retain for their own use and benefit all fees and other monies payable thereby and the Custodian and the Administrator shall not be deemed to be affected with notice of or to be under any duty to disclose to any Sub-Fund any fact or thing which comes to the notice of the Custodian or the Administrator in the course of the Custodian or the Administrator rendering similar services to others or in the course of its business in any other capacity or in any manner whatsoever otherwise than in the

course of carrying out its duties under the Custodian Agreement or the Fund Administration Agreement.

Conflicts of interest may also arise due to the widespread business operations of the Custodian, the Manager, the Administrator, the Registrar, the Conversion Agent or the Service Agent (as the case may be) and their respective holding companies, subsidiaries and affiliates. The foregoing parties may effect transactions where those conflicts arise and shall not, subject to the terms of the Instrument and the relevant agreement(s), be liable to account for any profit, commission or other remuneration arising. However, all transactions carried out by or on behalf of a Sub-Fund will be on arm's length terms and in the best interests of Shareholders. For so long as a Sub-Fund is authorised by the SFC and it is an applicable requirement of the UT Code, the Manager, if transacting with brokers or dealers connected to the Manager, investment delegates, the Custodian or any of their respective Connected Persons, must ensure it complies with the following obligations:

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

## **INVESTMENT OBJECTIVE, STRATEGY AND RESTRICTIONS**

### **Investment objective**

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

### **Investment strategy**

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

### **Investment restrictions**

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

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government or other Public Securities) through the following may not exceed 10% of the total Net Asset Value of the Sub-Fund, save as permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the UT Code;
  - (1) investments in securities issued by such entity;
  - (2) exposure to such entity through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entity arising from transactions of over the-counter FDIs,

for the avoidance of doubt, the restrictions and limitations on counterparty as set out in subparagraphs (a) and (b) and Chapter 7.28(c) of the UT Code will not apply to FDIs that are: (i) transacted on an exchange where the clearing house performs a central counterparty role; and (ii) marked-to-market daily in the valuation of their FDI positions and subject to margining requirements at least on a daily basis;
- (b) subject to (a) above and Chapter 7.28(c) of the UT Code, the aggregate value of the Sub-Fund's investments in, or exposure to entities within the same group through the following may not exceed 20% of the total Net Asset Value of the Sub-Fund;
  - (1) investments in securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the total Net Asset Value of the Sub-Fund, unless:
  - (1) the cash is held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of a Sub-Fund, whereby the placing of cash deposits with various financial institutions may 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.

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

- (d) ordinary shares issued by a single entity (other than Government and other Public Securities) held for the account of the Sub-Fund, when aggregated with other holdings of ordinary shares issued by the same entity held for the account of all other Sub-Funds under the Company collectively may not exceed 10% of the nominal amount of the ordinary shares issued by the entity;
- (e) not more than 15% of the total Net Asset Value of the Sub-Fund may be invested in securities and other financial products or instruments that are neither listed, quoted nor dealt in on a stock exchange, over-the-counter market or other organised securities market which is open to the international public and on which such securities are regularly traded;
- (f) notwithstanding (a), (b), (d) and (e) above, where direct investment by a Sub-Fund in a market is not in the best interests of investors, a Sub-Fund may invest through a wholly-owned subsidiary company established solely for the purpose of making direct investments in such market. In this case:
  - (1) the underlying investments of the subsidiary, together with the direct investments made by the Sub-Fund, must in aggregate comply with the requirements of Chapter 7 of the UT Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Shareholders or the Sub-Fund as a result must be clearly disclosed in the Explanatory Memorandum; and
  - (3) the Sub-Fund must produce the reports required by Chapter 5.10(b) of the UT Code in a consolidated form to include the assets (including investment portfolio) and liabilities of the subsidiary company as part of those of the Sub-Fund.
- (g) notwithstanding (a), (b) and (d) above, not more than 30% of the total Net Asset Value of a Sub-Fund may be invested in Government and other Public Securities of the same issue, except for a Sub-Fund which has been authorised by the SFC as an index fund, this limit may be exceeded with the approval of the SFC;
- (h) subject to (g) above, a Sub-Fund may fully invest in Government and other Public Securities in at least six different issues, and subject to the approval of the SFC, a Sub-Fund which has been authorised by the SFC as an index fund may invest all of its assets in Government and other Public Securities in any number of different issues;
- (i) unless otherwise approved by the SFC, the Sub-Fund may not invest in physical commodities;
- (j) for the avoidance of doubt, exchange traded funds that are:
  - (1) authorised by the SFC under Chapter 8.6 or 8.10 of the UT Code; or

- (2) listed and regularly traded on internationally recognized stock exchanges open to the public (nominal listing not accepted) and (a) 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 UT Code; or (b) 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 UT Code,

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in (k) below. However, the investments in exchange traded funds shall be subject to (e) above and the relevant investment limits in exchange traded funds by a Sub-Fund should be consistently applied and clearly disclosed in the Explanatory Memorandum of a Sub-Fund;

- (k) where the Sub-Fund invests in units or shares of other collective investment schemes (“underlying schemes”),

- (1) the value of the Sub-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 Sub-Fund; and
- (2) the Sub-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 Sub-Fund’s investment in units or shares in each such underlying scheme may not exceed 30% of the total Net Asset Value of the Sub-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 Sub-Fund,

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

- (A) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the UT Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the UT Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the UT Code. For the avoidance of doubt, a Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the UT Code (except for hedge funds under Chapter 8.7 of the UT Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in (j) above in compliance with (1) and (2) above;
- (B) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then (a), (b), (d) and (e) are also applicable to the investments of the underlying scheme; and
- (C) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
- (3) 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
- (4) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the

manager of an underlying scheme or any quantifiable monetary benefits in connection with investments in any underlying scheme;

- (l) a Sub-Fund may invest 90% or more of its total Net Asset Value in a single collective investment scheme and will be authorised as a feeder fund by the SFC. In this case,
  - (1) the underlying scheme (“master fund”) must be authorised by the SFC;
  - (2) the Explanatory Memorandum must state that:
    - i. the Sub-Fund is a feeder fund into the master fund;
    - ii. for the purpose of complying with the investment restrictions, the Sub-Fund (i.e. feeder fund) and its master fund will be deemed a single entity;
    - iii. the Sub-Fund (i.e. feeder fund)’s annual report must include the investment portfolio of the master fund as at the financial year-end date; and
    - iv. the aggregate amount of all the fees and charges of the Sub-Fund (i.e. feeder fund) and its master fund must be clearly disclosed;
  - (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager’s annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Shareholders or by the Sub-Fund (i.e. feeder fund) may result, if the master fund in which the Sub-Fund (i.e. feeder fund) invests is managed by the same Manager or by its Connected Person;
  - (4) notwithstanding paragraph (k)(2)(c) above, the master fund may invest in other collective investment scheme(s) subject to the investment restrictions as set out in paragraph (k); and
- (m) if the name of the Sub-Fund indicates a particular objective, investment strategy, geographic region or market, the Sub-Fund should, under normal market circumstances, invest at least 70% of its total Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Sub-Fund represents.

Each Sub-Fund shall not:

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

- (3) make short sales if as a result the Sub-Fund would be required to deliver securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, a Sub-Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;
- (4) subject to paragraph (e) above, lend or make a loan out of the assets of the Sub-Fund except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan, or 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 UT Code;
- (5) enter into any obligation on behalf of the Sub-Fund or acquire any asset or engage in any transaction for the account of the Sub-Fund which involves the assumption of any liability which is unlimited; or
- (6) apply any part of the Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transaction in FDIs for the purposes of the Chapter 7.29 and 7.30 of the UT Code.

### **Borrowing restrictions**

The Manager may cause to borrow up to 10% of the total Net Asset Value of a Sub-Fund unless otherwise stated in the relevant Appendix, provided always that back to back borrowings shall not be taken into account when determining whether or not these limits have been breached by the relevant Sub-Fund. For the avoidance of doubt, securities lending transactions and sale and repurchase transactions in compliance with the requirements as set out in Chapters 7.32 to 7.35 of the UT Code are not subject to the limitations in this paragraph.

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary within a reasonable period of time to remedy the situation, having due regard to the interests of Shareholders.

### **Financial derivative instruments**

Subject to the UT Code and the provisions of the Instrument, the Manager shall have the power on behalf of each Sub-Fund to agree and to enter into any FDI, for hedging or non-hedging (investment) purposes, provided that the exposure to the underlying assets of the FDIs, together with other investments of the relevant Sub-Fund, may not in aggregate exceed the corresponding investment restrictions or limitations applicable to such underlying assets as set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the UT Code.

#### *Hedging Purposes*

A Sub-Fund may acquire FDIs for hedging purpose provided that such FDIs shall 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 should 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 Sub-Fund to meet its hedging objective in stressed or extreme market conditions.

#### *Non-hedging (investment) purposes*

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

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by a Sub-Fund for investment purposes are converted into the equivalent position in the underlying assets of the FDIs, taking into account the prevailing market value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) 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.

#### *Restrictions applicable to FDIs*

The FDIs invested by a Sub-Fund should 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 or currencies or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies. Where a Sub-Fund invests in Index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions or limitations set out in paragraphs (a), (b), (c) and (g) under the section headed "Investment and borrowing restrictions" above provided that the relevant Index is in compliance with Chapter 8.6(e) of the UT Code;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;

- (c) subject to paragraphs (a) and (b) under the section headed “Investment and borrowing restrictions” above, the Sub-Fund’s net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the total Net Asset Value of the Sub-Fund. The exposure of the Sub-Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter financial derivative instruments with that counterparty, if applicable; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Custodian or their nominee(s), agent(s) or delegate(s) 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 Sub-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.

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

A transaction in FDIs which gives rise to a future commitment or contingent commitment of a Sub-Fund shall be covered as follows:

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

Where a financial instrument embeds a FDI, the requirements under “Financial Derivative Instruments” above will also apply to the embedded financial derivative. For such purposes, an “embedded financial derivative” is a FDI that is embedded in another security, namely the host contract.

### **Securities Financing Transactions**

Where indicated in the relevant Appendix, a Sub-Fund may enter into securities financing transactions in respect of a Sub-fund, provided that:

- (a) they are in the best interests of the Shareholders;
- (b) the associated risks have been properly mitigated and addressed; and

- (c) the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

Please refer to the “Investment Strategy” section in each relevant Appendix for the policy regarding such arrangements for each Sub-Fund.

A Sub-Fund which engages in securities financing transactions is subject to the following requirements:

- it shall have at least 100% collateralisation in respect of the securities financing transactions into which it enters to ensure there is no uncollateralised counterparty risk exposure arising from these transactions;
- all the revenues arising from securities financing transactions, net of direct and indirect expenses as reasonable and normal compensation for the services rendered in the context of the securities financing transactions to the extent permitted by applicable legal and regulatory requirements, shall be returned to the Sub-Fund;
- it shall ensure that it is able to at any time to recall the securities or the full amount of cash / collateral (as the case may be) subject to the securities financing transactions or terminate the securities financing transactions into which it has entered.

Please refer to each Appendix for the use of securities financing transactions for each Sub-Fund. If a Sub-Fund enters into such transactions, the details of the Manager’s policy in relation to securities financing transactions will be disclosed in this Explanatory Memorandum in accordance with the UT Code.

## **Collateral**

A Sub-Fund may receive collateral from a counterparty to over-the-counter FDI transactions and securities financing transactions. A Sub-Fund may receive collateral from each counterparty provided that the collateral complies with the requirements set out below:

- Liquidity – collateral must be sufficiently liquid and tradable that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- Valuation – collateral should be marked-to-market daily by using independent pricing source;
- Credit quality – asset used as collateral must be of high credit quality and should be replaced immediately as soon as the credit quality of the collateral or the issuer of the asset being used as collateral has deteriorated to such a degree that it would undermine the effectiveness of the collateral;
- Haircut – collateral should be subject to prudent haircut policy which should be based on the market risks of the assets used as collateral in order to cover potential maximum expected decline in collateral values during liquidation before a transaction can be closed out with due consideration on stress period and volatile markets. The price volatility of the asset used as collateral should be taken into account when devising the haircut policy;
- Diversification – collateral must be appropriately diversified to avoid concentrated exposure to any single entity and/or entities within the same group and the Sub-Fund’s exposure to issuer(s) of the collateral should be taken into account in compliance with the investment restrictions and limitations set out in Chapters 7.1, 7.1A, 7.1B, 7.4, 7.5, 7.11, 7.11A, 7.11B and 7.14 of the UT 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, or the counterparty of securities financing transactions to the extent that it would undermine the effectiveness of

the collateral. Securities issued by the counterparty or the issuer of the financial derivative instruments, or the counterparty of securities financing transactions or any of their related entities should not be used as collateral;

- 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 Custodian of the relevant Sub-Fund;
- Enforceability – collateral must be readily accessible/enforceable by the Custodian of the Sub-Fund without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment of collateral – unless otherwise specified in the relevant Appendix and subject to prior consultation with the SFC, and in compliance with the Laws and Regulations, 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 UT 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 UT Code. Non-cash collateral received may not be sold, re-invested or pledged;

For the purpose herein, “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. Any re-investment of cash collateral shall be subject to the following further restrictions and limitations and all other restrictions and limitations as may be imposed from time to time by the SFC:

- (i) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Clauses 18.3(B) and 18.3(I);
  - (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (iii) 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.
- Collateral should be free of prior encumbrances; and
  - Collateral generally 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) securitized products; or (iv) unlisted collective investment schemes.

Where a Sub-Fund intends to receive collateral, details of the Manager’s policy in relation to the collateral and criteria will be disclosed in this Explanatory Memorandum in accordance with the UT Code, and a description of holdings of collateral (including but not limited to a description of the nature of collateral, identity of the counterparty providing the collateral, value of the Sub-Fund (by percentage) secured/ covered by collateral with breakdown by asset class/nature and credit rating (if applicable)) will be disclosed in the Sub-Fund’s annual and interim reports for the relevant period as required under Appendix E of the UT Code.

## **Stock Connect**

The Stock Connect is a securities trading and clearing linked programme developed by the HKEX, the SSE, the SZSE and the CSDCC, with an aim to achieve 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 the Shenzhen-Hong Kong Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and securities trading service companies (in Shanghai and Qianhai Shenzhen respectively) established by the Stock Exchange and the HKSCC, are able to trade eligible shares listed on the SSE or the SZSE by routing orders to the SSE or the SZSE (as the case may be). Under the Southbound Trading Link, eligible investors, through Mainland Chinese securities firms and securities trading service companies established by the SSE and the SZSE, are able to trade eligible shares listed on the Stock Exchange by routing orders to the Stock Exchange.

#### *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 Stock Exchange, 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 Stock Exchange, 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.

#### *Trading day*

Investors (including the Sub-Fund) will only be allowed to 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 will be subject to a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading, for each of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. 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 any Sub-Fund and are utilised on a first-come-first-serve basis. The Stock Exchange monitors the quota and publishes the remaining balance of the Northbound 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 HKSCC will be 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.

### *Corporate actions and shareholders' meetings*

Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE listed companies will still treat the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant CCASS participants informed of all such corporate actions that require CCASS participants to take steps in order to participate in them. The same arrangement is applicable to SZSE Securities under the Shenzhen-Hong Kong Stock Connect.

### *Currency*

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

### *Trading fees and taxes*

In addition to paying trading fees and stamp duties in connection with A-Share trading, the Sub-Fund may be subject to other fees and taxes concerned with income arising from stock transfers 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.

For defaults occurring on or after 1 January 2020, the Investor Compensation Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement.

On the other hand, since a Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not mainland Chinese brokers, such trading is not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in Mainland China.

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

[http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm)

### **QFI regime**

Under current regulations in the PRC, foreign investors can invest in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a means a qualified foreign institutional investor ("QFI") or a Renminbi qualified foreign institutional investor ("RQFII") from the CSRC for the purpose of investing in the PRC's domestic securities markets.

On 25 September 2020, the CSRC issued the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (in Chinese 《合格境外機構投資者和人民幣合格境外機構投資者境內

證券期貨投資管理辦法》) and its implementing rules (collectively, the “New QFI Measures”), which, with effect from 1 November 2020, consolidated the previous QFII and RQFII programs into one.

As of the date of this Explanatory Memorandum, the QFI regime is governed by (i) the “Regulations on Capital Management of Domestic Securities and Futures Investments by Foreign Institutional Investors” jointly issued by the PBOC and the SAFE and effective from 6 June 2020 (in Chinese 《境外機構投資者境內證券期貨投資資金管理規定》); (ii) the New QFI Measures; and (iii) any other applicable regulations promulgated by the relevant authorities (collectively, the “QFI Regulations”).

The Manager has obtained RQFII status pursuant to the QFI Regulations. Starting from 1 November 2020 when the New QFI Measures took effect, the Manager is able to select whether to use foreign convertible currencies or RMB to make investment under the RQFII regime.

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

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

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

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

In terms of fund remittance, foreign investors (such as a relevant Sub-Fund) may remit investment principal in RMB or foreign currency into Mainland China for investing in the Mainland inter-bank bond market. An investor will need to remit investment principal matching at least 50% of its anticipated investment size within nine months after the completion of the filing with the Shanghai Head Office of PBOC, or else an updated filing will need to be made through the onshore settlement agent. For repatriation, where a relevant Sub-Fund repatriates funds out of Mainland China, the ratio of RMB to foreign currency (“Currency Ratio”) should generally match the original Currency Ratio when the investment principal was remitted into Mainland China, with a maximum permissible deviation of 10%.

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

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

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

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

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

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

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

## **SUBSCRIPTION OF SHARES**

### **Initial issue of Shares**

During an Initial Offer Period, Shares in a Sub-Fund will be offered to investors at an initial Subscription Price of a fixed price per Share as specified in the relevant Appendix.

If at any time during an Initial Offer Period, the total amount received by the Custodian from the subscription of the Shares reaches a maximum amount for aggregate subscriptions (if so specified in the relevant Appendix), the Manager is entitled (but not obliged) to close the Sub-Fund to further subscriptions before the end of the relevant Initial Offer Period.

The Manager may decide not to issue any Shares in the event that less than a minimum amount for aggregate subscriptions (if so specified in the relevant Appendix), is raised during the relevant Initial Offer Period or if the Manager is of the opinion that it is not commercially viable to proceed. In such circumstances, any subscription monies paid by an applicant will be returned by telegraphic transfer or such other means as the Manager considers appropriate at the applicant's risk (without interest and after deduction of any expenses incurred by the Company or the Manager in returning all or any part of such subscription monies) promptly after the expiry of the Initial Offer Period.

Shares will be issued on the Business Day following the close of the Initial Offer Period or such other Business Day as the Manager may determine. Subject to as disclosed in the relevant Appendix, dealing of the Shares will commence on the Dealing Day immediately following the closure of the relevant Initial Offer Period.

### **Subsequent issue of Shares**

Following the close of the relevant Initial Offer Period, Shares will be available for issue on each Dealing Day at the relevant Subscription Price, unless otherwise specified in the relevant Appendix.

Unless otherwise specified in the relevant Appendix, the Subscription Price on any Dealing Day will be the price per Share of the relevant Class ascertained by dividing the Net Asset Value of such Class as at the Valuation Point in respect of the relevant Dealing Day by the number of Shares of that Class then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other rounding as the Manager may determine, after consultation with the Custodian. Any rounding adjustment will be retained by the relevant Class. The Subscription Price will be calculated and quoted in the reference currency of the relevant Class.

The Manager is entitled to impose a subscription fee on the Subscription Price of each Share. The Manager may, either generally or in any particular case, differentiate as to the amount of the subscription fee to be levied in respect of different Classes, differentiate between applicants as to the amount of the subscription fee to be levied and/or allow to persons a discount to the subscription fee on such basis or on such scale as the Manager may think fit. 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.

The Company may require an applicant to pay, in addition to the Subscription Price or the subscription proceeds and any subscription fee, a further amount which it reasonably considers to represent an appropriate allowance for (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees or registration fees, or (c) other charges which are customarily incurred in investing a sum equal to the application monies and issuing the relevant Shares or of delivery or issue of certificates in respect thereof or the remittance of money to the

Company (the “Subscription Adjustment Allowance”). Any such Subscription Adjustment Allowance will be paid to the Company and will form part of the assets of the relevant Sub-Fund.

### **Application procedure**

To subscribe for Shares, an applicant should complete the application form supplied with this Explanatory Memorandum and return the original form, together with the required supporting documents, to the Administrator.

Unless otherwise specified in the relevant Appendix, applications for Shares during the relevant Initial Offer Period, together with cleared funds, must be received by no later than 4:00 pm (Hong Kong time) on the last day of the relevant Initial Offer Period. After the Initial Offer Period, applications must be received by the relevant Dealing Deadline, unless otherwise specified in the relevant Appendix. Unless otherwise specified in the relevant Appendix, if any application is received after the relevant Dealing Deadline in respect of a Dealing Day, then the application will be deemed to have been received on the following Dealing Day.

Applications for subscription may be made in writing by post or sent via fax or other electronic means accepted by the Manager. Unless otherwise agreed by the Administrator, application forms that are sent via fax or other electronic means accepted by the Manager to the Administrator must always be followed by their original. Applicants who choose to send an application form by fax or other electronic means accepted by the Manager bear the risk of the form being illegible or not being received by the Administrator. Applicants should therefore, for their own benefit, confirm with the Administrator safe receipt of an application form. None of the Company, the Directors, the Manager, the Registrar or the Custodian will be responsible to an applicant for any loss resulting from non-receipt or illegibility of any application form sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such application believed in good faith to have originated from the applicant. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

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

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

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

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

The Company may reject in whole or in part any application for Shares without giving any reason for doing so. In the event that an application is rejected in whole or in part, the subscription monies received, or the balance thereof, shall be returned to the applicant (without interest and after deduction of any expenses incurred by the Company, the Manager, the Custodian or the

Administrator in returning all or any part of such subscription monies) by such means as the Manager considers appropriate.

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

### **Payment procedure**

Subscription monies should be paid in the currency in which the relevant class of Shares is denominated. Payment details are set out in the application form.

Subscription monies paid by any person other than the applicant will not be accepted.

Unless otherwise specified in the relevant Appendix, payment for Shares shall be due in cleared funds in the relevant currency within 3 Business Days following the relevant Dealing Day on which an application was received by the Dealing Deadline. If payment in full in cleared funds is not received by the Dealing Deadline, unless the Manager determines otherwise, the application may be rejected and, if Shares are issued prior to receipt of cleared funds, the Manager may cancel the issue of the relevant Shares. Upon such cancellation, the relevant Shares shall be deemed never to have been issued and the applicant for such Shares shall have no right or claim in respect of the cancellation against the Company or the Manager, provided that: (i) no previous calculation of the Net Asset Value of the relevant Sub-Fund or Class shall be re-opened or invalidated as a result of the cancellation of such Shares; (ii) the Company shall be entitled to charge the applicant (and retain for its own use and benefit) a cancellation fee for the administrative costs involved in processing the application and the subsequent cancellation; and (iii) the Company may require the applicant to pay, for the account of the relevant Sub-Fund, in respect of each Share so cancelled, the amount (if any) by which the Subscription Price of each such Share exceeds the Redemption Price which would have applied in relation to each cancelled Share on the date on which the Share is cancelled.

### **Suspension of issue and subscription of Shares**

The Manager may at its discretion (in consultation with the Custodian and having regard to the best interests of Shareholders), suspend the issue of Shares of any Class of any Sub-Fund in the following circumstances:

- (a) during any period when a market on which (i) for an Index Tracking Sub-Fund, a security and/or futures contract (as the case may be) that is a constituent of the Index of the relevant Index Tracking Sub-Fund, or (ii) for a Sub-Fund that is not an Index Tracking Sub-Fund, a substantial part of the investments of the Sub-Fund, has its primary listing, or the official clearing and settlement depositary (if any) of such market, is closed;
- (b) during any period when dealing on a market on which (i) for an Index Tracking Sub-Fund, any security and/or futures contract (as the case may be) that is a constituent of the Index of the relevant Index Tracking Sub-Fund, or (ii) for a Sub-Fund that is not an Index Tracking Sub-Fund, a substantial part of the investments of the Sub-Fund, has its primary listing is restricted or suspended;
- (c) during any period when, in the opinion of the Manager, settlement or clearing of securities and/or futures contracts, as the case may be, in the official clearing and settlement depositary (if any) of such market is disrupted;
- (d) during the existence of any state of affairs as a result of which delivery or purchase of securities and/or futures contracts, as the case may be, as appropriate or disposal of investments for the time being comprised in the relevant Sub-Fund cannot, in the opinion

of the Manager, be effected normally or without prejudicing the interests of Shareholders of the relevant Sub-Fund;

- (e) during any period when the Index for the relevant Index Tracking Sub-Fund is not compiled or published;
- (f) during any breakdown in any of the means normally employed in determining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Share of the relevant Class or when for any other reason the value of any securities and/or futures contracts or other property for the time being comprised in the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (g) during any period when the determination of the Net Asset Value of the relevant Sub-Fund is suspended or if any circumstance specified in the section on "Suspension of Determination of Net Asset Value" below arises;
- (h) during any period when the swap (if applicable) cannot be adjusted or reset for any reason;
- (i) during any period when the business operations of the Company, the Manager, the Custodian, the Administrator or any delegate of the Company or the Manager in respect of an application in the relevant Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God;
- (j) if as a result of the investment of the proceeds of issue of such Shares in accordance with the investment objective of the Sub-Fund, the Company collectively holds or would hold in aggregate more than 10 per cent of the ordinary shares issued by any single entity and the SFC has not agreed to waive this prohibition under the UT Code; or
- (k) in the case of a Sub-Fund authorised by the SFC as a feeder fund and investing into a master fund –
  - (1) during any period when a market on which the master fund has its primary listing, or the official clearing and settlement depositary (if any) of such market, is closed;
  - (2) during any period when dealing on a market on which the master fund has its primary listing is restricted or suspended;
  - (3) during any period when trading of the master fund on the relevant market is restricted or suspended; or
  - (4) during any period when the determination of the net asset value of the master fund is suspended.

## **General**

All holdings of Shares will be in registered form and certificates will not be issued. Evidence of title of Shares will be the entry on the register of Shareholders in respect of each Sub-Fund. Shareholders should therefore be aware of the importance of ensuring that the Registrar is informed of any change to the registered details. Fractions of Shares may be issued rounded down to the nearest to 2 decimal places. Subscription monies representing smaller fractions of a Share will be retained by the Company for the relevant Sub-Fund. A maximum of 4 persons may be registered as joint Shareholders.

## **REDEMPTION OF SHARES**

### **Redemption procedure**

Shareholders who wish to redeem their Shares in a Sub-Fund may do so on any Dealing Day by submitting a redemption request to the Administrator.

Any redemption request must be received by the Administrator before the Dealing Deadline. Investors redeeming Shares 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 Shares through a nominee, the investor wishing to redeem Shares must ensure that the nominee, as the registered Shareholder, submits the relevant redemption request by the Dealing Deadline. Redemption requests submitted after the applicable Dealing Deadline in respect of any Dealing Day will be dealt with on the next Dealing Day.

Redemption requests may be made in writing by post or sent via fax or other electronic means accepted by the Manager and must specify the name of the Sub-Fund, the class (if applicable) and the value or number of Shares to be redeemed, the name(s) of the registered Shareholder(s) and give payment instructions for the redemption proceeds. Unless otherwise agreed by the Administrator, redemption requests that are sent via fax or other electronic means accepted by the Manager must always be promptly followed by their original. A Shareholder who chooses to send the redemption request by fax or other electronic means accepted by the Manager bears the risk of the request being illegible or not being received by the Administrator. Shareholders should therefore, for their own benefit, confirm with the Administrator safe receipt of a redemption request. None of the Company, the Manager, the Registrar, the Custodian or the Administrator will be responsible to a Shareholder for any loss resulting from non-receipt or illegibility of any redemption request sent by fax or other electronic means or for any loss caused in respect of any action taken as a consequence of such redemption request believed in good faith to have originated from the Shareholder. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

Partial redemption of a holding of Shares in a Sub-Fund by a Shareholder may be effected, provided that such redemption will not result in the Shareholder holding less than the minimum holding specified in the relevant Appendix. In the event that, for whatever reason, a Shareholder's holding of Shares is less than such minimum holding, the Manager may give notice requiring such Shareholder to submit a redemption request in respect of such Shares or deem such request to have been made in respect of all Shares of the relevant Class held by the Shareholder. A request for a partial redemption of Shares with an aggregate value of less than the minimum amount specified in the relevant Appendix (if any) will not be accepted, unless otherwise agreed by the Directors.

### **Payment of redemption proceeds**

Unless otherwise specified in the relevant Appendix, the Redemption Price on any Dealing Day will be the price per Share of the relevant Class 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 Shares of that Class then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other rounding as the Manager may determine, after consultation with the Custodian. Any rounding adjustment will be retained by the relevant Class. The Redemption Price will be calculated and quoted in the reference currency of the relevant Class.

The Manager may at its option impose a redemption fee in respect of the Shares to be redeemed as described in the section headed "Expenses and Charges" below. The Manager may, either

generally or in any particular case, differentiate as to the amount of the redemption fee to be levied in respect of different Classes of Shares and/or allow to persons a discount to the redemption fee on such basis or on such scale as the Manager may think fit. The redemption fee will be retained by the Manager.

The Company is entitled to deduct from the Redemption Price an amount which it reasonably considers represents an appropriate provision (a) estimated bid/offer spread of the investments of the relevant Sub-Fund, (b) extraordinary transactional fees or expenses, including stamp duty, other taxes, brokerage, bank charges, transfer fees or registration fees, and (c) other charges which are customarily incurred in selling the securities constituting the Scheme Property of the relevant Sub-Fund or the remittance of money to the Company (the "Redemption Adjustment Allowance"). Any such Redemption Adjustment Allowance will be retained by and form part of the assets of the relevant Sub-Fund.

The amount due to a Shareholder on the redemption of a Share will be the Redemption Price, less any redemption fee and any Redemption Adjustment Allowance.

Redemption proceeds will not be paid to any redeeming Shareholder until (a) unless otherwise agreed in writing by the Administrator, the written original of the redemption request duly signed by the Shareholder has been received by the Administrator and (b) the signature of the Shareholder (or each joint Shareholder) has been verified to the satisfaction of the Company or its duly authorised agents. In accordance with the Sub-Fund's anti-money laundering (AML) obligations, requests for transfer or payment of redemption proceeds will not be effected until receipt of all outstanding information and identification documents. None of the Sub-Fund, the Manager or the Custodian accepts any responsibility for any loss caused as a result of any such delay for refusal to process transfer requests or effect payment of redemption proceeds (as the case may be) and claims for payment of interest due to such delays are not accepted.

Subject as mentioned above, and save as determined by the Directors at the request or with the agreement of the redeeming Shareholder, and so long as relevant account details have been provided, redemption proceeds will normally be paid in the currency of denomination of the relevant class of Shares by telegraphic transfer, within 5 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the markets in which a substantial portion of the relevant Sub-Fund's investments is made is subject to legal or regulatory requirements (such as foreign currency controls) thus rendering the payment of redemption proceeds within the aforesaid time period not practicable, but in such a case the details of such legal or regulatory requirements will be set out in the relevant Appendix and the extended time frame for payment should reflect the additional time needed in light of the specific circumstances in the relevant markets. Any bank and other administrative charges (if any) associated with the payment of such redemption proceeds will be borne by the redeeming Shareholder and deducted from the redemption proceeds.

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

The Instrument provides that redemptions may be, in whole or in part, made *in specie* at the discretion of the Manager. However, the Manager does not intend to exercise this discretion in respect of any Sub-Fund unless otherwise specified in the relevant Appendix. In any event, redemptions may only be made *in specie*, in whole or in part, with the consent of the Shareholder requesting the redemption.

### **Suspension of redemption of Shares**

The Manager may at its discretion (in consultation with the Custodian and having regard to the best interests of Shareholders), suspend the redemption of Shares of any Class and/or delay the payment of any monies and transfer of any securities and/or futures contracts (subject to all

applicable legal or regulatory requirements where payment of redemption proceeds exceeds one calendar month), as the case may be, in respect of any redemption application in the following circumstances:

- (a) during any period when a market on which (i) for an Index Tracking Sub-Fund, a security and/or futures contract (as the case may be) that is a constituent of the Index of the relevant Index Tracking Sub-Fund, or (ii) for a Sub-Fund that is not an Index Tracking Sub-Fund, a substantial part of the investments of the Sub-Fund, has its primary listing, or the official clearing and settlement depositary (if any) of such market, is closed;
- (b) during any period when dealing on a market on which (i) for an Index Tracking Sub-Fund, any security and/or futures contract (as the case may be) that is a constituent of the Index of the relevant Index Tracking Sub-Fund, or (ii) for a Sub-Fund that is not an Index Tracking Sub-Fund, a substantial part of the investments of the Sub-Fund, has its primary listing is restricted or suspended;
- (c) during any period when, in the opinion of the Manager, settlement or clearing of securities and/or futures contracts, as the case may be, in the official clearing and settlement depositary (if any) of such market is disrupted;
- (d) during the existence of any state of affairs as a result of which delivery or purchase of securities and/or futures contracts, as the case may be, as appropriate or disposal of investments for the time being comprised in the relevant Sub-Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Shareholders of the relevant Sub-Fund;
- (e) during any period when the Index for the relevant Index Tracking Sub-Fund is not compiled or published;
- (f) during any breakdown in any of the means normally employed in determining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Share of the relevant Class or when for any other reason the value of any securities and/or futures contracts or other property for the time being comprised in the relevant Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (g) during any period when the determination of the Net Asset Value of the relevant Sub-Fund is suspended or if any circumstance specified in the section on "Suspension of Determination of Net Asset Value" below arises;
- (h) during any period when the swap (if applicable) cannot be adjusted or reset for any reason;
- (i) during any period when the business operations of the Company, the Manager, the Custodian, the Administrator or any delegate of the Company or the Manager in respect of a redemption application in the relevant Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God; or
- (j) in the case of a Sub-Fund authorised by the SFC as a feeder fund and investing into a master fund –
  - (1) during any period when a market on which the master fund has its primary listing, or the official clearing and settlement depositary (if any) of such market, is closed;
  - (2) during any period when dealing on a market on which the master fund has its primary listing is restricted or suspended;

- (3) during any period when trading of the master fund on the relevant market is restricted or suspended; or
- (4) during any period when the determination of the net asset value of the master fund is suspended.

### **Deferred redemption**

With a view to protecting the interests of Shareholders and unless otherwise specified in the relevant Appendix, in the event that redemption requests are received for the redemption of Shares representing in aggregate more than 10% (or such higher or lower percentage as the Manager may determine in respect of a Sub-Fund as permitted by the SFC) of the total number of Shares in a Sub-Fund then in issue, the Company may reduce the requests rateably and pro rata amongst all Shareholders seeking to redeem Shares on the relevant Dealing Day and carry out only sufficient redemptions which, in aggregate, amount to 10% (or such higher percentage as the Manager may determine in respect of a Sub-Fund as permitted by the SFC) of the number of Shares in the Sub-Fund then in issue. Shares which are not redeemed but which would otherwise have been redeemed will be redeemed on the next Dealing Day (subject to further deferral if the deferred requests in respect of the relevant Sub-Fund themselves exceed 10% (or such higher or lower percentage as the Manager may determine in respect of that Sub-Fund as permitted by the SFC) of the total number of Shares in the relevant Sub-Fund then in issue) in priority to any other Shares in the relevant Sub-Fund for which redemption requests have been received. Shares will be redeemed at the Redemption Price prevailing on the Dealing Day on which they are redeemed.

The Manager may suspend the redemption of Shares of any Sub-Fund, or delay the payment of redemption proceeds in respect of any redemption request received, during any period in which the determination of the Net Asset Value of the relevant Sub-Fund is suspended (for details please see the section headed "Suspension of determination of Net Asset Value").

### **Compulsory redemption**

If the Manager reasonably suspects that Shares of any class are owned directly or beneficially by any person:

- (a) who is an Unauthorised US Person;
- (b) in contravention of any laws or requirements of any country, any governmental authority or any stock exchange on which such Shares are listed (if applicable);
- (c) in circumstances (whether directly or indirectly affecting such person and whether taken alone or in conjunction with any other persons, connected or not, or any other circumstances appearing to the Manager to be relevant) which, in the Manager's opinion, might result in the Sub-Fund in relation to such Class of Shares, the Company, the Directors, any service provider and/or other Shareholders incurring any liability to taxation or suffering any other pecuniary disadvantage which the Sub-Fund, the Company, the Directors, any service provider and/or other Shareholders might not otherwise have incurred or suffered;
- (d) in breach of any requirements specified in this Explanatory Memorandum in relation to such Class of Shares,

the Manager may give notice to the relevant Shareholder requiring him to transfer such Shares to a person who would not be in contravention of any such restrictions as aforesaid within 30 days of the date of the notice, or take such other actions as they reasonably believe are required by the Laws and Regulations. If any Shareholder upon whom such a notice is served pursuant to the Instrument does not, within 30 days of such notice, transfer such Shares as aforesaid or establish to the reasonable satisfaction of the Manager (whose judgment shall be final and binding) that such

Shares are not held in contravention of any such restrictions he shall be deemed to have given a redemption request in respect of the relevant Shares on the expiry of the notice.

## **SWITCHING**

The Manager may from time to time permit Shareholders to switch some or all of their Shares of any Class of a Sub-Fund (the “Existing Class”) into Shares of another Class of the same Sub-Fund or of another Sub-Fund which has been authorised by the SFC, or an unlisted class of shares, units or interests in any other fund managed by the Manager or its Connected Persons and which has been authorised by the SFC (the “New Class”), as specified in the relevant Appendix. Where permitted, Shareholders may request switching by giving notice in writing by post or via fax or other electronic means accepted by the Manager. Unless otherwise agreed by the Administrator, switching notices that are sent via fax or other electronic means accepted by the Manager to the Administrator must always be followed by their original. A Shareholder who chooses to send the notice by fax or other electronic means accepted by the Manager bears the risk of the request being illegible or not being received by the Administrator. Shareholders should therefore, for their own benefit, confirm with the Administrator safe receipt of a switching notice. None of the Company, the Manager, the Custodian or their respective delegates or agents shall be responsible to any Shareholder for any loss resulting from the non-receipt or illegibility of a request for switching transmitted by fax or other electronic means, or for any loss caused in respect of any action taken as a consequence of instructions believed in good faith to have originated from the Shareholder. This is notwithstanding the fact that a transmission report produced by the originator of such transmission discloses that such transmission was sent.

Unless otherwise determined by the Manager, a request for the switching of part of a holding of Shares will not be effected if, as a result, the Shareholder would hold less than the minimum holding specified for the New Class (if any).

Under the Instrument, the Manager is entitled to impose a switching fee on the switching of Shares of up to 1% of the Redemption Price of each Share of the Existing Class switched or the redemption proceeds payable in respect of the Shares of the Existing Class being switched or the subscription price of each share, unit or interest of the New Class. The switching fee will be deducted from the amount reinvested in the New Class and will be paid to the Manager.

Any switching request must be received by the Company before the Dealing Deadline applicable to the Existing Class and the dealing deadline applicable to the New Class. Where a request for switching is received by the Company in respect of a Dealing Day, switching will be effected as follows:

- redemption of the Shares of the Existing Class will be dealt with by reference to the Redemption Price on that Dealing Day (the “Switching Redemption Day”);
- where the Existing Class and the New Class have different currencies of denomination, the redemption proceeds of Shares of the Existing Class, after deduction of any switching fee, shall be converted into the currency of denomination of the New Class; and
- the resulting amount will be used to subscribe for Shares of the New Class at the relevant Subscription Price on the dealing day in respect of the New Class (the “Switching Subscription Day”). The Switching Subscription Day shall be the same day as the Switching Redemption Day (and in the case where the relevant Dealing Day of the Existing Class is not a dealing day in respect of the New Class, the Switching Redemption Day will be the following Dealing Day that is a dealing day of the New Class), provided that the Company shall receive cleared funds in the relevant currency of the New Class within such period as determined by the Manager. In the event that cleared funds are not received within the applicable period, the Switching Subscription Day shall be the day on which the Company receives cleared funds in the relevant currency of the New Class by the dealing deadline of the New Class, unless otherwise determined by the Manager.

The Manager may suspend the switching of Shares during any period in which the determination of the Net Asset Value of the relevant class or Shares of the relevant Sub-Fund is suspended (for details see “Suspension of Calculation of Net Asset Value” below). If the issuance of shares in the New Class or the redemption of Shares in the Existing Class is suspended or limited in accordance with the provisions of this Instrument, Shares shall not be switched into the New Class.

Details of the switching policy and switching fee (if any) relating to each class of Shares are set out in the relevant Appendix.

## **VALUATION**

### **Valuation rules**

The Net Asset Value of each Sub-Fund will be calculated by valuing the assets of the Sub-Fund and deducting the liabilities attributable to the Sub-Fund. These liabilities include, without limitation, any management fee, performance fee, custodian fee, any taxes, any borrowings and the amount of any interest and expenses thereon, any other costs or expenses expressly authorised by the Instrument, and an appropriate allowance for any contingent liabilities.

Where a Sub-Fund has more than one class of Shares, to ascertain the Net Asset Value of a class of Shares, a separate class account (a "Class Account") will be established in the books of the Sub-Fund. An amount equal to the proceeds of issue of each Share will be credited to the relevant Class Account. Any increase or decrease in the Net Asset Value of the Sub-Fund (disregarding for these purposes any increase in the Net Asset Value due to new subscriptions or decreases due to redemptions or any designated Class Adjustments (as defined below)) will be allocated to the relevant Class Account on a pro-rata basis based on the previous Net Asset Value of each such Class Account. There will then be allocated to each Class Account the "designated Class Adjustments" being those costs, pre-paid expenses, losses, dividends, profits, gains and income which the Manager determines relate to a single class.

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

- (a) investments (other than a commodity, futures contract or an interest in a collective investment scheme) that are quoted, listed, traded or dealt in on any securities market will be valued by reference to the last traded price or "exchange close" price as calculated and published by the relevant exchange of that market in accordance with its local rules and customs, provided that: (i) if an investment is quoted, listed, traded or dealt in on more than one such market, the price adopted shall be the last traded price or the exchange close price as published by the market which, in the opinion of the Manager, provides the principal market for such investment, provided that if the Manager considers that the prices published on a securities market other than the principal market for such investment provides, in all circumstances, a fairer criterion of value in relation to any such investment, such prices may be adopted; (ii) if prices on such market are not available at the relevant time, the value of the investment shall be certified by such firm or institution making a market in such investment or by the Manager after consultation with the Custodian; (iii) interest accrued on any interest-bearing investments shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Manager or the Administrator shall be entitled to use and rely on electronically transmitted data from such source or sources or pricing systems as they may from time to time think fit and the prices provided by any such source or pricing system shall be deemed to be the last traded prices for the purposes of valuation;
- (b) the value of any investment (other than a commodity or an interest in a collective investment scheme) which is not quoted, listed, traded or ordinarily dealt in on any securities market shall initially be the value equal to the amount expended out of the assets of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses). Thereafter the Manager may at any time in consultation with the Custodian (and shall at such times or at such intervals as the Custodian shall request) cause a revaluation to be made by reference to the latest bid price, asked price or mean thereof, as the Manager considers appropriate, quoted by a person, firm or institution making a market in such investment or otherwise approved by the Custodian as qualified to value such investment (which may, if the Custodian agrees, be the Manager);

- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager in consultation with the Custodian, any adjustment should be made to reflect the value thereof;
- (d) the value of any commodity shall be ascertained in accordance with the following:
  - (i) if a commodity is dealt in any recognised commodities market, then regard shall be had to the latest ascertainable price ruling or officially fixed on such recognised commodities market or (if there shall be more than one such recognised commodities market) on such recognised commodities market as the Manager, in consultation with the Custodian, shall consider appropriate;
  - (ii) if any such price as referred to in (i) is not, in the opinion of the Manager, ascertainable at any relevant time, then regard shall be had to any certificate as to the value of such commodity provided by a firm or institution making a market in such commodity;
  - (iii) the value of any futures contract (the "relevant Contract"), to the extent that it is not determined in accordance with (i) or (ii), shall be valued (1) where the relevant Contract is for the sale of a commodity, by subtracting, from the contract value of the relevant Contract, the sum of the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and (2) where the relevant Contract is for the purchase of a commodity, by subtracting, from the amount determined by the Manager (based on the latest available price) to be the contract value of such futures contract as would be required to be entered into by the Manager for the account of the Sub-Fund in order to close the relevant Contract, the sum of the contract value of the relevant Contract and the amount expended out of the Sub-Fund in entering into the relevant Contract (including the amount of all stamp duties, commissions and other expenses but excluding any deposit or margin provided in connection therewith); and
  - (iv) if the provisions of (i) and (ii) do not apply to the relevant commodity, then the value shall be determined in accordance with (b) above as if such commodity were an unquoted investment;
- (e) the value of each unit, share or interest in any collective investment scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit, share or other interest in such collective investment scheme calculated as at that day or, if the Manager so determines, if such collective investment scheme is not valued as at the same day as the Sub-Fund, shall be the last published net asset value per unit, share or other interest in such collective investment scheme, provided that if no net asset value and bid prices are available, the value thereof shall be determined from time to time in such manner as the Manager shall determine in consultation with the Custodian;
- (f) notwithstanding paragraphs (a) to (e) above, the Manager may, upon consultation with the Custodian, adjust the value of any investment or permit some other method of valuation to be used if such adjustment is required to reflect the fair value of the investment provided that such adjustment may only be made in compliance with the Laws and Regulations; and
- (g) the value of any investment (whether of a borrowing or other liability or an investment or cash) in a currency other than the Base Currency of the Sub-Fund or the currency of denomination of the relevant class will be converted into the Base Currency or the currency of denomination of such class (as the case may be) at the rate (whether official or otherwise)

which the Custodian or its delegates or the Manager (after consultation with the Custodian where the Manager in its good faith opinion considers appropriate to consult the Custodian) shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

### **Suspension of calculation of Net Asset Value**

Subject to the Laws and Regulations and the Instrument, the Manager may, in consultation with the Custodian, suspend the determination of the Net Asset Value of any Sub-Fund or of any Class of Shares of any period during which:

- (a) there exists any state of affairs prohibiting the normal disposal and/or purchase of the Sub-Fund's investments;
- (b) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial part of the securities and/or futures contracts held or contracted for the account of that Sub-Fund or it is not possible to do so without seriously prejudicing the interest of Shareholders of that Sub-Fund;
- (c) for any other reason the prices of investments of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (d) there is a breakdown in the means normally employed in determining the Net Asset Value of the relevant Sub-Fund or the Net Asset Value per Share of the relevant Class or when for any other reason the value of any securities and/or futures contracts or other property for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial part of the securities and/or futures contracts or other property of that Sub-Fund or the subscription or redemption of Shares of the relevant Class is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange;
- (f) the business operations of the Company or any delegate of the Company or the Manager in respect of the determination of the Net Asset Value of the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God;
- (g) the existence of any state of affairs prohibiting the normal disposal of any notional investment to which a swap is linked (if applicable); or
- (h) in the case of a Sub-Fund authorised by the SFC as a feeder fund, the determination of the net asset value of the master fund (as defined in the sub-section "Investment Restrictions" of the section "Investment Objective, Strategy and Restrictions") is suspended.

Any suspension shall take effect forthwith upon the Manager making a declaration and thereafter there shall be no determination of the Net Asset Value of the relevant Sub-Fund or Class of Shares or the Subscription Price or the Redemption Price of Shares in the relevant Class until the suspension is terminated on the earlier of (i) the Manager declaring the suspension is at an end; and (ii) the first Dealing Day on which (1) the condition giving rise to the suspension shall have ceased to exist and (2) no other condition under which suspension is authorised exists.

Each declaration by the Manager shall be consistent with the Laws and Regulations. Whenever the Manager shall declare a suspension, the Manager (i) shall, immediately after any such declaration notify the SFC of such suspension; and (ii) shall, immediately after any such declaration and at

least once a month during the period of such suspension, publish a notice on the Manager's website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC) that such declaration has been made.

No Shares in a Sub-Fund may be issued, switched or redeemed during such a period of suspension.

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

The latest Subscription Price and Redemption Price in respect of Shares or the Net Asset Value per Share of each Sub-Fund are available on the Manager's website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC).

## **EXPENSES AND CHARGES**

*There are different levels of fees and expenses applicable to investing in each Sub-Fund as set out below. For information concerning actual fees payable in respect of each Sub-Fund, please refer to the relevant Appendix.*

### **Fees payable by Shareholders**

The following fees and charges are payable by Shareholders:

#### **Subscription Fee**

Under the Instrument, the Manager is entitled to impose a subscription fee on the issue of Shares of any Sub-Fund of up to a maximum of 5% of the subscription amount.

The subscription fee is payable in addition to the Subscription Price per Share. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the subscription fee (either generally or in any particular case) of a Sub-Fund.

#### **Redemption fee**

Under the Instrument, the Manager is entitled to impose a redemption fee on the redemption of Shares of any Sub-Fund of up to a maximum of 5% of the redemption price of such Shares.

The redemption fee is deducted from the redemption proceeds payable to a Shareholder in respect of each Share redeemed. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the redemption fee (either generally or in any particular case) of a Sub-Fund.

#### **Switching fee**

Under the Instrument, the Manager is entitled to impose a switching fee on the switching of Shares of up to 1% of the redemption proceeds payable in respect of the Shares of the Existing Sub-Fund being switched.

The switching fee is deducted from the amount realised from redemption of the Existing Sub-Fund and reinvested in the New Sub-Fund. The Manager may, in its absolute discretion, waive or reduce the payment of all or any portion of the switching fee (either generally or in any particular case) of a Sub-Fund.

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

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

#### **Management fee**

The Instrument provides that the Manager is entitled to a management fee in respect of each Sub-Fund it manages, the maximum amount of which is equal to 3% per annum of the Net Asset Value of the relevant Sub-Fund. Any increase in the management fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Shareholders; and (ii) beyond this maximum level, is subject to approval by Special Resolution (as defined in the Instrument) of the affected Shareholders. The management fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

The Manager may share any fees, charges or amounts it is received for its management services as Manager of the Sub-Fund with any persons who distribute or otherwise procure subscriptions to

the Sub-Fund. A distributor or intermediary may further re-allocate an amount of such fees, charges or amounts to its sub-distributor(s).

#### Performance fee

The Manager may also charge a performance fee in respect of any Sub-Fund. Details of any performance fee are set out in the relevant Appendix.

#### Custodian and Administration fee

The Instrument provides that the Custodian and the Administrator are entitled to a custodian and administration fee in respect of each Sub-Fund, the maximum amount of which is equal to 2% per annum of the Net Asset Value of the Sub-Fund. Any monthly minimum referred to in the Appendix is subject to and does not override the maximum level of custodian and administration fee stated above. Any increase in the custodian and administration fee in respect of a Sub-Fund (i) up to this maximum level, will only be implemented after giving one month's notice (or such period of notice as the SFC may require) to the affected Shareholders; and (ii) beyond this maximum level, is subject to approval by Special Resolution (as defined in the Instrument) of the affected Shareholders. The custodian and administration fee will be accrued as at each Valuation Day and will be payable monthly in arrears.

#### Directors' remuneration and expenses

Under the Instrument, the Directors shall be entitled to remuneration for their services as Directors up to an amount per annum equivalent to USD10,000 per Director and, where payable, such remuneration shall be allocated fairly as between Sub-Funds by reference to their respective Net Asset Values.

The Company may pay any travelling, accommodation and other expenses properly incurred by Directors in connection with their attendance at meetings of Directors, general meetings, separate meetings of the Shareholders or any Sub-Fund or Class of Shareholders or the exercise of their powers and the discharge of their responsibilities in relation to the Company.

#### Other charges and expenses

Each Sub-Fund will bear the costs set out in the Instrument which are directly attributable to it. Where such costs are not directly attributable to a Sub-Fund, such costs will be allocated between all Sub-Funds pro-rata to the Net Asset Value of each Sub-Fund, unless otherwise determined by the Manager after consultation with the Custodian and/or the Auditor. Such costs include but are not limited to the costs of investing and realising the investments of a Sub-Fund, the fees and expenses of safekeeping of the assets of the Company and each Sub-Fund, any fees, charges or expenses (including without limitation, stamp duty) incurred in connection with counterparty risk management procedures, the fees and expenses of any administrators, auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Shareholders and the costs incurred in the preparation and printing of any explanatory memorandum and preparation and printing of any financial statements. The Manager may in its discretion bear part of or all of the costs attributable to a Sub-Fund set out in this section.

Expenses arising out of any advertising or promotional activities in connection with any Sub-Fund authorised by the SFC will not be charged to the Company or that Sub-Fund.

#### **Establishment costs**

The costs of establishing the Company and the first Sub-Fund were charged to and amortised over the first 5 accounting periods of the first Sub-Fund (or such other period as determined by the Manager after consultation with the auditors of the Sub-Fund). Where subsequent Sub-Funds

under the Company are established, the Manager may determine that the unamortised establishment costs of the Company (if any) or a part thereof may be re-allocated to such subsequent Sub-Funds.

Unless otherwise specified in the relevant Appendix, the costs of establishing a subsequent Sub-Fund will be charged to the relevant Sub-Fund and amortised over such period as the Manager may determine after consultation with the auditors, and details are set out in the relevant Appendix.

Investors should also note that under IFRS, establishment costs should be expensed as incurred and that amortisation of the expenses of establishing Sub-Funds is not in accordance with IFRS; however, the Manager has considered the impact of such non-compliance and has considered that it will not have a material impact on the financial statements of Sub-Funds. To the extent that the basis adopted by a Sub-Fund for subscription and redemption purposes deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with IFRS.

### **Cash rebates and soft commissions**

None of the Manager, the investment delegate (if any) or any of its Connected Persons receives any cash commissions or other rebates from brokers or dealers in respect of transactions for the account of any Sub-Fund. However, the Manager, the investment delegate (if any) and/or any of the Connected Persons with either of them reserve the right to effect transactions by or through the agency of another person (the “Agent”) with whom the Manager, the investment delegate (if any) and/or any of their respective Connected Persons has such an arrangement.

The Manager, the investment delegate (if any) and/or any of their respective Connected Persons may receive, and are entitled to retain, goods, services or other benefits, such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publication (known as soft dollar benefits) which are of demonstrable benefit to a Sub-Fund as a whole and may contribute to an improvement in the performance of the relevant Sub-Fund or of the Manager and/or any of its Connected Persons in providing services to the relevant Sub-Fund (as may be permitted under the UT Code, applicable rules and regulations), from brokers and other persons through whom investment transactions are carried out (“brokers”) provided that the quality of transaction execution is consistent with best execution standards, brokerage rates are not in excess of customary institutional full-service brokerage rates and the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. For the avoidance of doubt, such goods and services do not include travel accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be disclosed in the relevant Sub-Fund’s annual report.

## **RISK FACTORS**

*The nature of each Sub-Fund's investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of any Sub-Fund will be achieved. This section sets out what the Manager believes are the general risks associated with investments in the Sub-Funds, but investors should note that the relevant Appendix may include additional risk factors which are specific or particular to a particular Sub-Fund. The risk factors below do not offer advice on the suitability of investing in any Sub-Fund. Prospective investors should carefully evaluate the merits and risks of an investment in a Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisers before making any investment in a Sub-Fund.*

### **General risks**

#### **Investment risk**

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

#### **Market risk**

The Net Asset Value of a Sub-Fund will change with changes in the market value of the investments of such Sub-Fund. The value of such investments, and consequently the price of Shares of the relevant Sub-Fund, may go down as well as up.

#### **Concentration risk**

Certain Sub-Funds may invest only in a specific country, region, sector or type of investment with a particular focus. Although there are various investment restrictions with which the Manager has to comply when managing the investments of any Sub-Fund, the concentration of a Sub-Fund's investments may subject it to greater volatility than portfolios which comprise broad-based global investments.

#### **Emerging market risk**

Certain Sub-Funds may invest in emerging markets (including Mainland China), which subjects Sub-Funds to a higher level of market risk than investments in a developed country/region. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, settlement risk (including risks arising from settlement procedures), greater risk of market shut down and more governmental limitations on foreign investment than those typically found in developed markets.

#### **Counterparty risk**

A Sub-Fund will be subject to the risk of the inability of any counterparty to perform with respect to any investments or contracts purchased by the Sub-Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations due to financial difficulties, the Sub-Fund may experience significant delays in obtaining any recovery in bankruptcy or other reorganisation proceeding. Such Sub-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.

A Sub-Fund may be exposed to the counterparty risk of the Custodian with which the Scheme Property is deposited. The Custodian may be unable to perform their obligations due to credit-related and other events like insolvency of or default of them. In these circumstances the relevant Sub-Fund may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the relevant Sub-Fund's assets.

#### Liquidity risk

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

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

#### Exchange rate risk

Assets of certain Sub-Funds may be denominated in currencies other than the base currencies of such Sub-Funds and the currency of some assets may not be freely convertible. These Sub-Funds may be adversely affected by changes in exchange rates between the currencies in which the assets of the relevant Sub-Fund are held and the base currency of such Sub-Fund.

#### Restricted markets risk

Certain Sub-Funds may invest in securities in jurisdictions (including Mainland China) which impose limitations or restrictions on foreign ownership or holdings. In such circumstances, such Sub-Funds may be required to make investments in the relevant markets directly or indirectly. In either case, legal and regulatory restrictions or limitations may have adverse effect on the liquidity and performance of such investments due to factors such as limitations on fund repatriation, dealing restrictions, adverse tax treatments, higher commission costs, regulatory reporting requirements and reliance on services of local custodians and service providers.

#### Legal and compliance risk

Domestic and/or international laws or regulations may change in a way that adversely affects a Sub-Fund. Differences in laws between countries/regions or jurisdictions may make it difficult for the Custodian or Manager to enforce legal agreements entered into in respect of a Sub-Fund. The Custodian 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 or restructuring the relevant Sub-Fund.

#### Suspension risk

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

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

#### Early termination risk

Under the Instrument, a Sub-Fund may be terminated by the Manager or the Custodian in certain conditions and in the manner as described in "Termination (otherwise than by winding up)" in the section entitled "General" in this Explanatory Memorandum. It is possible that, in the event of such termination, a Sub-Fund will not be able to achieve its investment objective and investors will have to realise any investment loss and will receive an amount less than the capital they originally invested.

#### Cross class liability risk

The Instrument allows the Custodian and the Manager to issue Shares in separate classes. The Instrument provides for the manner in which liabilities are to be attributed across the various classes within a Sub-Fund under the Company (liabilities are to be attributed to the specific class of a Sub-Fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant class (in the absence of the Custodian granting that person a security interest). However, the Custodian will have a right of reimbursement and indemnity out of the assets of the Company which may result in Shareholders of one class of Shares of a Sub-Fund being compelled to bear the liabilities incurred in respect of another class of the Sub-Fund which Shares such Shareholders do not themselves own if there are insufficient assets attributable to that other class to satisfy the amount due to the Custodian. Accordingly, there is a risk that liabilities of one class of a Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of that Sub-Fund.

#### Cross Sub-Fund liability risk

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

#### Valuation and accounting risk

Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes, establishment costs are to be amortised over a period of 5 years (or such other period as determined by the Manager after consultation with the auditors of the relevant Sub-Fund), which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of Net Asset Value of the Sub-Fund(s) materially. To the extent that the valuation or accounting basis adopted by any Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS.

#### Reliance on the Manager risk

Shareholders must rely on the Manager in formulating the investment strategies and the performance of each Sub-Fund is largely dependent on the services and skills of its officers and employees. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case of the insolvency of the Manager, the Company may not find successor managers with the requisite skills, qualifications quickly and the new appointment may not be on equivalent terms or of similar quality.

## Investment risks

### Risk of investing in equity securities

Sub-funds which invest directly or indirectly in equity securities are exposed to the risk that the market value of such equity securities may go down as well as up. Equity markets may fluctuate significantly with prices rising and falling sharply, and this will have a direct impact on such Sub-Funds. When equity markets are extremely volatile, such Sub-Fund's Net Asset Value may fluctuate substantially.

### Risk of investing in fixed income instruments:

*Interest rate risk:* Sub-funds which invest in fixed income instruments are subject to interest rate risk. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, market value of fixed income instruments tends to fall. Long-term fixed income instruments in general are subject to higher interest rate risk than short-term fixed income instruments.

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

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

*Risks of investing in lower graded or unrated fixed income instruments:* A Sub-Fund may invest in fixed income instruments which are rated with a relatively lower grade or which are non-rated. As mentioned above, such instruments are generally more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these instruments may also be more difficult and thus the relevant Sub-Fund's prices may be more volatile.

*Risks of credit rating downgrades:* Credit rating of fixed income instruments and/or issuers of fixed income instruments may be downgraded, thus adversely affecting the value and performance of a Sub-Fund holding such investments.

*Risks of fixed income instruments from Mainland China:* Certain Sub-Funds may invest in fixed income instruments issued or distributed within Mainland China. The financial market of Mainland China is at an early stage of development, and many of such Mainland Chinese fixed income instruments may be unrated, which exposes such Sub-Funds to greater risks because of generally reduced liquidity, greater price volatility and greater credit risk. Such a Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who will generally be incorporated in Mainland China and therefore not subject to the laws of Hong Kong.

*Limited availability of offshore RMB fixed income instruments:* Certain Sub-Funds may invest in RMB fixed income instruments issued or distributed outside Mainland China. However, the quantity of RMB fixed income instruments issued or distributed outside Mainland China that are available is currently limited, and the remaining duration of such instruments may be short. In the absence of available fixed income instruments, or when such instruments held are at maturity, a Sub-Fund

holding such investments may have to allocate a significant portion of its portfolio in RMB negotiated term deposits with authorised financial institutions until suitable fixed income instruments are available in the market. This may adversely affect the relevant Sub-Fund's return and performance.

#### Risk of investing in financial derivative instruments

Certain Sub-Funds may from time to time utilise financial derivative instruments for investment and/or hedging purposes. The use of derivatives exposes a Sub-Fund to additional risks, including: (1) volatility risk (derivatives can be highly volatile and expose investors to a high risk of loss); (2) leverage risk (as the low initial margin deposits normally required to establish a position in derivatives permits a high degree of leverage, there is risk that a relatively small movement in the price of a contract could result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin); (3) liquidity risk (daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of derivatives and transactions in over-the-counter derivatives may involve additional risk as there is no exchange market on which to close out an open position); (4) correlation risk (when used for hedging purposes there may be an imperfect correlation between the derivatives and the investments or market sectors being hedged); (5) counterparty risk (the Sub-Fund is exposed to the risk of loss resulting from a counterparty's failure to meet its financial obligations); (6) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the derivative contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); and (7) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

The eventuation of any of the above risks could have an adverse effect on the Net Asset Value of a Sub-Fund which uses financial derivative instruments.

#### Risk of investing in structured debt instruments (including mortgage-backed securities)

Certain Sub-Funds may invest in securitised or structured debt instruments (collectively, "structured debt instruments"). Such structured debt instruments include asset-backed securities, mortgage-backed securities, collateralised debt instruments and collateralised loan obligations. provide exposure, synthetically or otherwise, to underlying assets and the risk/return profile is determined by the cash flows derived from such assets. Some of such instruments involve multiple instruments and cash flow profiles such that it is not possible to predict with certainty the outcome from all market scenarios. Also, the price of such an investment could be contingent on, or highly sensitive to, changes in the underlying components of the structured debt instrument. The underlying assets can take many forms including, but not limited to, credit card receivables, residential mortgages, corporate loans, manufactured housing loans or any type of receivables from a company or structured vehicle that has regular cash flows from its customers. Some structured debt instruments may employ leverage which can cause the price of the instruments to be more volatile than if they had not employed leverage. In addition, investments in structured debt instruments may be less liquid than other securities. The lack of liquidity may cause the current market price of assets to become disconnected from the underlying assets' value and consequently Sub-Funds investing in structured debt instruments may be more susceptible to liquidity risk. The liquidity of a structured debt instrument can be less than a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

#### Over-the-counter markets risk

Over-the-counter (OTC) markets are subject to less governmental regulation and supervision of transactions (in which many types of financial derivative instruments and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets.

Therefore, a Sub-Fund entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions.

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

#### Risks associated with Stock Connect

If a Sub-Fund invests through the Stock Connect, it may be subject to the following risks. In the event that the Sub-Fund's ability to invest in A-Shares through the Stock Connect on a timely basis is adversely affected, the Manager will seek to rely on RQFII investments to achieve the Sub-Fund's investment objective.

*Quota limitations:* The Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound 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 Sub-Fund's ability to invest in A-Shares through the Stock Connect may be affected.

*Suspension risk:* It is contemplated that both the SEHK and the SSE would reserve the right to suspend Northbound and/or Southbound trading if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading is effected, the Sub-Fund's ability to access the PRC market through the Stock Connect will be adversely affected.

*Operational risk:* The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the 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. Market participants may need to address issues arising from the differences on an on-going basis.

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 Sub-Fund's tracking of the Index if, for example, a constituent of the Index is recalled from the scope of eligible stocks.

*Clearing and settlement risk:* The HKSCC and CSDCC will establish clearing links and each will 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 Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from the CSDCC.

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

*Limited Protection by 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. For defaults occurring on or after 1 January 2020, the Investor Compensation Fund also covers investors' losses in relation to securities traded on a stock market operated by the Shanghai Stock Exchange or the Shenzhen Stock Exchange and in respect of which an order for sale or purchase is permitted to be routed through the northbound link of a Stock Connect arrangement. On the other hand, since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not Mainland Chinese brokers, it is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in Mainland China. Therefore the Sub-Fund is exposed to the risks of default of the broker(s) it engages in its trading in A-Shares through the programme.

#### Hedging risk

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

## **TAXATION**

The following summary of taxation is of a general nature, and for information purposes only, and is not intended to be an exhaustive list of all the tax considerations that may be relevant to a decision to purchase, own, realise or otherwise dispose of Shares. The summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of Shareholders. Prospective Shareholders should consult their professional advisers on the consequences to them of acquiring, holding, redeeming, transferring or selling Shares under the relevant laws of Hong Kong as well as the relevant jurisdiction(s) 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, Mainland China and also regarding FATCA and related laws at the date of this Explanatory Memorandum. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Explanatory Memorandum. Furthermore, tax laws can be subject to different interpretations and no assurance can be given that the relevant tax authorities will not take a contrary position to the tax treatment described below.

### **Hong Kong Taxation**

#### **Taxation of the Company and the Sub-Fund**

##### **Profits Tax**

As the Company and the Sub-Fund have been authorised as a collective investment scheme by the SFC under Section 104 of the SFO, profits of the Company and the Sub-Fund are exempt from Hong Kong profits tax under Section 26A of the Inland Revenue Ordinance ("IRO").

##### **Stamp Duty**

Hong Kong stamp duty is payable on the transfer of Hong Kong stock. "Hong Kong stock" is defined as "stock" the transfer of which is required to be registered in Hong Kong. The Shares should fall within the definition of "Hong Kong stock" as the register of Shareholders will be kept in Hong Kong.

No Hong Kong stamp duty is payable by the Company or a Sub-Fund on an issue or redemption of Shares.

No Hong Kong stamp duty is payable on a sale or purchase of any Hong Kong stock that satisfies both of the following conditions (i) the sale or purchase is made in consideration of any issue or redemption of a Share; (ii) the value of the Hong Kong stock is proportionate to the value of the Share.

#### **Taxation of the Shareholders**

##### **Profits tax**

Dividend by the Company or a Sub-Fund should generally not be subject to Hong Kong profits tax in the hands of the Shareholders in accordance with the current law and practice of the Inland Revenue Department of Hong Kong ("IRD") (as at the date of this Explanatory Memorandum).

Hong Kong profits tax (which is currently charged at the rate of 16.5% for corporations, and 15% for individuals and unincorporated business) will arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal of the Shares where such transactions form part of

a trade, profession or business carried on by a Shareholder in Hong Kong and such Shares are not capital assets to the Shareholders. Ascertaining the classification of a gain as revenue or capital will depend on the particular facts and circumstances of the Shareholders. A two-tiered profits tax rates regime is applicable to any year of assessment commencing on or after 1 April 2018. Under the two-tiered profits tax rates regime, the first HKD 2 million of assessable profits will be subject to a reduced tax rate at 50% of the standard profits tax rate (i.e. 8.25% for corporations and 7.5% for individuals and unincorporated business), with certain exceptions, and the remaining profits will be subject to the standard rate of 16.5% for corporations and 15% for individuals and unincorporated business. For a group of “connected entities” (as defined under Section 14AAB of IRO), only one entity within the group can elect to apply the two-tiered profits tax rates. Shareholders should take advice from their own professional advisers as to their particular tax position.

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

#### Stamp Duty

No Hong Kong stamp duty is payable by a Shareholder in relation to an issue of Shares or on the redemption of Shares.

Other types of sales and purchases or transfers of the Shares by the Shareholders should be liable to Hong Kong stamp duty of 0.26% (normally borne in equal share of 0.13% by the buyer and 0.13% by the seller) on the higher of the consideration amount or market value. In addition, a fixed duty of HKD5.00 is currently payable on any instrument of transfer of Shares.

Shareholders should take advice from their own professional advisers as to their particular tax position.

#### Automatic Exchange of Financial Account Information

The Inland Revenue (Amendment) (No.3) Ordinance (the “Ordinance”) (as amended from time to time) came into effect on 30 June 2016. This is the legislative framework for the implementation of the OECD’s Standard for Automatic Exchange of Financial Account Information (“AEOI”) in Hong Kong. The AEOI comprise, among others, the model Competent Authority Agreement (“CAA”) and Common Reporting Standard (“CRS”). The AEOI requires FIs in Hong Kong to obtain information from the account holders, conduct due diligence on the account holders and file the required information that relates to the reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the IRD for the purpose of automatic exchange. Generally, the information will be reported and automatically exchanged in respect of account holders that are tax residents in a reportable jurisdiction(s) with which Hong Kong has a CAA in force (“Reportable Jurisdictions”); however, under AEOI, the Company, a Sub-Fund and/or its agents may further obtain information and/or documentation relating to the residents of other jurisdictions that are not resident in a Reportable Jurisdiction.

The Company is required to comply with the requirements of the Ordinance, which means that the Company and/or its agents shall obtain and provide to the IRD the required information relating to Shareholders where required. The Ordinance requires the Company to, amongst other things, (i) register the Company as a “Reporting Financial Institution” with the IRD to the extent the Company maintains reportable financial accounts; (ii) conduct due diligence on its account holders (i.e. Shareholders) in order to determine whether any of their relevant financial accounts are regarded as “Reportable Accounts” under the Ordinance; and (iii) report to the IRD the required information of such Reportable Accounts on an annual basis. The IRD is expected on an annual basis to exchange the required information reported to it to the competent authorities of the respective Reportable Jurisdictions. Broadly, AEOI requires that Hong Kong FIs should report on: (i) individuals or entities that are tax residents in a Reportable Jurisdiction; and (ii) certain entities controlled by individuals who are tax residents in such jurisdictions. Under the Ordinance, details

of Shareholders or their controlling persons (as the case may be), including but not limited to their name, place of birth, date of birth, address, tax residence, tax identification number(s) (if any), account number, account balance/value regarding their interest in the Company, and income or sale or redemption proceeds received from the Company, should be reported to the IRD and subsequently exchanged with competent authorities in the relevant Reportable Jurisdictions.

By investing in a Sub-Fund and/or continuing to invest in a Sub-Fund, Shareholders acknowledge that they may be required to provide additional information or documents to the Company and/or its agents in order for the Company to comply with the Ordinance. A Shareholder's information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Shareholders as appropriate) may be exchanged by the IRD to the competent authorities in the relevant Reportable Jurisdictions.

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

### **Mainland China taxation**

The following is based on the Manager's general understanding of certain aspects of the tax laws, regulations and practice currently in force in the PRC with respect to an investment in the Sub-Fund. It is not intended or written to be used, and may not be used, by any taxpayer in order to avoid taxes which may be imposed on the taxpayer under PRC tax law or the tax law of any other country or jurisdiction. No guarantee can be given that the tax position at the date of this Explanatory Memorandum or at the time of an investment will endure indefinitely. Each taxpayer should seek tax advice from an independent tax advisor based on the taxpayer's particular circumstances.

In the PRC, under the current regulatory environment, foreign investors are allowed to invest in A-Shares, bonds and certain financial instruments through QFI, Stock Connect, Bond Connect and Foreign Access Regime.

With the implementation of the new QFI scheme from 1 November 2020, QFIs are allowed to invest in more diversified financial instruments, including certain derivatives products, etc.

Under the prevailing PRC tax regimes, foreign investment in A-Shares, bonds and other financial instruments would normally be subject to Corporate Income Tax ("CIT"), Withholding Income Tax ("WHT"), Value Added Tax ("VAT") and Stamp Duty ("SD").

#### **General PRC Taxation**

##### **CIT**

Under the prevailing PRC CIT Law, a China Tax Resident Enterprises ("TRE") is subject to CIT on its worldwide income. A foreign enterprise with a "place of effective management" within the PRC is also regarded as a PRC TRE.

The "place of effective management" refers to the place where the exercise, in substance, of the overall management and control of the production and business operation, personnel, accounts and assets is located.

A non-TRE with an establishment or a place of business in the PRC shall pay CIT on income derived by such establishment or place from sources in China as well as income derived from outside China that is effectively connected with such establishment or place.

An "establishment or place" is defined under PRC CIT Law as an establishment or place in China engaging in production and business operations, including management and business

organisations, representative offices, places where natural resources are exploited, labor services are rendered, contractor projects are undertaken, and other establishments or places where production and business activities are undertaken. Business agents who regularly sign contracts, store and deliver goods, etc. on behalf of non-TREs would also be regarded as creating an establishment or place of business in the PRC under CIT law.

Under the CIT law, the standard CIT rate is 25%.

A non-TRE that has no establishment or place in the PRC is taxed only on its China-source income. A unilateral concessionary rate of 10% WHT will be applied on gross income derived from dividends, interest and other China-source passive income unless reduced under a tax treaty or tax arrangement.

The Company together with the Manager, do not intend to operate in a way that would cause the Sub-Fund to be treated as a PRC TRE or to have an establishment or a place in the PRC, although this cannot be guaranteed. It is possible, however, that the PRC tax authority could disagree with such an assessment or that changes in PRC tax law could affect the PRC CIT status of the Sub-Fund.

If the Sub-Fund does not have a place of effective management, an establishment or a place of business in the PRC, the Sub-Fund will normally be regarded as a non-TRE.

Generally, QFI would be subject to PRC WHT at 10% on its gross income from dividends, interest and capital gains realized from the holding and disposal of the shares in the PRC investee companies unless reduced/waived under PRC tax laws and regulations or relevant tax treaties/tax arrangements.

## VAT

Under the prevailing PRC VAT regulations, general payers and small-scale payers are subject to different VAT calculation methods and different VAT rates.

Foreign investors are subject to VAT at 6% which is applicable to general payers on the gains derived from trading financial products in the PRC (including trading equity or equity-linked securities) and interest income from the PRC.

## SD

According to the PRC SD law which came into effect from 1 July 2022, SD is levied on certain taxable documents executed or used in the territory of the PRC as well as trading securities in the PRC. Currently, SD is levied on sellers only, at 0.1% of the total transfer value when trading A-Shares and B-Shares on the PRC stock exchanges. The sale or purchase of PRC domestic bonds investments does not fall in the SD taxable scope and are not subject to PRC SD.

## A-Shares investments via QFI

### Capital gains

According Circular Caishui [2014] No. 79 ("Circular 79"), effective from 17 November 2014, QFII/RQFIIs<sup>1</sup> are temporarily exempt from the PRC WHT on the capital gains derived from trading A-Shares and other PRC equity-linked investments, provided that QFII/RQFIIs do not have a place or an establishment in the PRC or the relevant capital gains are not connected to their places or

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<sup>1</sup> The relevant PRC tax circulars were issued before the implementation of the new QFI scheme. QFII and RQFII are quoted by reference to the relevant China tax circulars in this Explanatory Memorandum.

establishments in the PRC. However, it is uncertain how long such temporary exemption will last and whether it will be repealed and re-imposed retrospectively.

According to Circular Caishui [2016] No. 36 and Caishui [2016] No. 70, QFII/RQFIIs are exempt from VAT on their income derived from entrusting PRC domestic companies to conduct securities trading in the PRC.

Currently, SD on A-Shares transactions is imposed on the transferors only, at 0.1% of the total transfer value.

#### Dividends

Dividends derived by overseas investors from A-Shares via QFI are subject to WHT at 10% unless reduced under a tax treaty or tax arrangement. Under the current China tax regulations, China A-Shares listed companies are required to withhold and settle such WHT with China tax authorities.

Dividends from China equity investment are not subject to VAT.

#### A-Shares investment via Stock Connect

##### Capital gains

According to Circular Caishui [2014] No. 81 ("Circular 81") and Circular Caishui [2016] No. 127 ("Circular 127"), overseas investors are temporarily exempt from PRC WHT on the gains from trading A-Shares via Stock Connect. However, it is uncertain how long the temporary exemption will last, and whether it will be repealed and re-imposed retrospectively.

Investors from Hong Kong market are exempt from VAT on the capital gains derived from the transactions of trading A-Shares through Stock Connect.

Currently, SD on A-Shares transactions is imposed on the transferors only, at 0.1% of the total transfer value.

##### Dividends

Dividends derived by overseas investors from A-Shares via Stock Connects are subject to WHT at 10%. Under the current China tax regulations, China A-Shares listed companies are required to withhold and settle such WHT with China tax authorities.

Dividends from China equity investment are not subject to VAT in China.

#### B-Shares investments

##### Capital gains

According to CIT law, technically, overseas investors would be subject to PRC WHT at 10% on the gains derived from trading B-Shares on the PRC stock exchanges unless reduced/waived under a tax treaty/tax arrangement. In practice, PRC tax authorities have not strictly enforced the collection of WHT from overseas investors on their trading gains from B-Shares.

According to Caishui [2016] No.36, technically, capital gains derived from trading B-Shares should be subject to VAT at 6%. In practice, China tax authorities have not actively collected VAT from overseas investors on the capital gains from trading B-Shares.

Currently, SD on B-Shares transactions is imposed on the transferors only at 0.1% of the total transfer value.

## Dividends

According to current CIT Law, dividends derived by overseas investors from B-Shares shall be subject to 10% WHT unless reduced/waived under a tax treaty/tax arrangement.

Dividends from China equity investment are not subject to VAT in China.

## H-shares investments

### Capital gains

According to CIT law, generally, capital gains derived by overseas investors from trading H-shares shall be subject to 10% WHT unless reduced/waived under a tax treaty/tax arrangement.

Under the Hong Kong/Mainland China Arrangement of Avoidance of Double Taxation, gains derived by qualified investment funds from trading securities in recognised offshore stock markets are not subject to PRC WHT.

Capital gains derived by overseas investors from trading H-shares would not be subject to VAT since the transactions are carried out by the overseas investors over the Hong Kong Stock Exchange, an offshore market.

According to the newly enacted PRC SD law, transferring equity interest of a PRC resident enterprise shall be subject to SD regardless of whether the transactions are executed outside of the PRC or not. SD would be imposed on both transferors and transferees at the rate of 0.05%. It is unclear whether trading H-shares by non-PRC investors outside the PRC would be subject to SD without further clarification from China tax authorities.

In practice, SD is not imposed by China tax authorities on the trading of H-shares over past years.

## Dividends

Under CIT law, dividends derived by overseas investors from H-shares shall be subject to PRC WHT at 10% unless reduced/waived under a tax treaty/tax arrangement.

According to Circular Guoshuihan [2008] No. 897, PRC resident enterprises listed in Hong Kong stock exchange are required to withhold 10% PRC WHT when distributing dividends to overseas investors. Overseas investors could apply with PRC authorities subsequently to enjoy tax treaty benefits based on their specific situations.

Dividends from China equity investment are not subject to VAT in China.

## China bonds investment via Bond Connect, QFI and Foreign Access Regime

### Interest

Pursuant to Public Notice 34 jointly issued by the Ministry of Finance and the State Taxation Administration on 22 November 2021, interest income derived by overseas institutional investors from the domestic bond market are temporarily exempt from CIT/WHT and VAT during the period from 7 November 2021 to 31 December 2025 provided that such bond interest is not derived by the establishment or place of business of the overseas investors in the PRC or effectively connected with such establishment or place. However, it is uncertain whether this temporary exemption will be further extended after expiration.

### Capital gains

Under the prevailing PRC tax regime, there are no specific rules or regulations governing the CIT/WHT treatment on the capital gains derived by foreign investors from trading China bonds. In practice, China tax authorities have not taken active actions to collect CIT/WHT on the capital gains derived by foreign investors from trading China bonds.

According to the Operational Procedures for Overseas Institutional Investors to Enter China Interbank Bond Market prescribed by the People's Bank of China ("PBOC") in November 2017, capital gains derived by foreign investors from trading the domestic bond instruments through China Interbank Bond Market is exempt from CIT/WHT. However, it is uncertain how long the exemption will last.

Therefore, the capital gains derived by foreign investors from trading China bonds are not subject to PRC CIT/WHT, unless China tax authorities issue specific tax rules in the future to state otherwise.

Pursuant to Circular Caishui [2016] No.36 and Circular Caishui [2016] No.70, VAT exemption would be granted to capital gains derived from the following transactions:

- a) QFII/RQFII entrust PRC domestic companies to conduct securities trading in the PRC; or
- b) Bond trading conducted by foreign institutions approved by PBOC through China Interbank Bond Market.

SD is levied on certain taxable documents executed or used in the PRC. The sale or purchase of PRC domestic bonds investments does not fall in the SD taxable scope and are not subject to PRC SD.

#### Investment in new assets classes

In China, new QFII scheme became effective on 1 November 2020 with significant changes, including the consolidation of previous QFII and RQFII schemes into one QFI scheme and expansion of QFI's investment scope, etc.

The prevailing PRC tax laws may not fully cover the tax treatment on the income derived from new permissible asset classes upon the implementation of new QFI scheme. The current tax policies could be a reference. However, it is subject to further clarification of regulatory and tax authorities on the tax treatment on investment in new assets classes.

Any PRC tax liabilities and/or amounts that are levied in connection with PRC CIT, WHT, VAT and SD on the gains or income of the Sub-Fund's investments made through QFI, Stock Connect, Bond Connect and Foreign Access Regime may ultimately be recharged to and borne by the Sub-Fund. In light of the foregoing, the Sub-Fund reserves the right to provide for China taxes on such gains or income and withhold China taxes for the account of the Sub-Fund. Accordingly, the value and profitability of the Sub-Fund may be affected.

It should also be noted that the actual PRC taxes imposed by China tax authorities may be different and may change from time to time. There is a possibility of regulatory changes and PRC taxes being applied retrospectively. There are also risks and uncertainties associated with the current PRC tax laws, regulations and practice. Such changes or uncertainties may result in higher taxation on PRC investments than currently contemplated. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet ultimate PRC tax liabilities. Consequently, investors may be advantaged or disadvantaged depending upon the ultimate PRC tax liabilities, the level of provision and when they subscribed and/or redeemed their shares in the Sub-Fund.

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

#### **FATCA**

The US FATCA imposes a reporting and withholding regime with respect to certain payments to foreign financial institutions, such as the Company and the Sub-Funds. Under FATCA, investment income including dividends and interest and, potentially on a future date, gross proceeds from securities of U.S. issuers ("Withholdable Payments") may be subject to withholding at a rate of 30%, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service ("IRS") to identify U.S. persons (within the meaning of the IRS code) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an "FFI"), such as the Company and each Sub-Fund (and, generally, other investment funds organised outside the U.S.), generally will be required to enter into an agreement (an "FFI Agreement") with the IRS, under which it will agree to be treated as a participating FFI. Participating FFIs generally will be required to identify its direct or indirect owners (under certain circumstances) who are U.S. persons and report certain information concerning such owners to the IRS. Also, an FFI may be required to withhold U.S. tax at a rate of 30% on certain payments to investors who fail to cooperate with certain information requests made by the participating FFI. Moreover, participating FFIs may be required to withhold such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS or that are not otherwise deemed compliant with FATCA.

The United States and Hong Kong have entered into an intergovernmental agreement ("IGA") for the implementation of FATCA, adopting "Model 2" IGA arrangements on 13 November 2014. Under such "Model 2" IGA arrangements, FFIs in Hong Kong (such as the Company and the Sub-Funds) can enter into an FFI Agreement with the IRS, register with the IRS as Participating FFIs, and, with the consent of the Shareholders, disclose the required information regarding certain Shareholders to the IRS. Otherwise each Sub-Fund will be subject to 30% withholding tax on relevant U.S.-sourced payments and other withholdable payments.

Under the IGA, FFIs in Hong Kong (such as the Company and the Sub-Fund) complying with the terms of an FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on Withholdable Payments made to non-consenting U.S. accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close such accounts (provided that information regarding such account is reported to the IRS pursuant to the provisions of the IGA). Such FFIs, however, may be required to withhold tax on withholdable payments made to non-compliant FFIs.

The Company and Sub-Fund have been registered with the IRS as a reporting Model 2 FFI and obtained a Global Intermediary Identification Number ("GIIN") UK33B7.99999.SL.344. In order to protect Shareholders and avoid any withholding tax, it is the Company's intention to endeavour to satisfy the requirements imposed under FATCA, the IGA and the terms of an FFI agreement. Broadly, the IGA requires each Company / Sub-Fund to, amongst other things, (i) register as a "reporting financial institution" with the IRS; (ii) conduct due diligence on its accounts to identify whether any such accounts are considered "U.S. Accounts" under the IGA; and (iii) report to the IRS the required information on such U.S. Accounts on an annual basis. Hence it is possible that this may require the Company or Sub-Fund (through its agents or service providers) as far as legally permitted, to report information on the holdings or investment returns of any Shareholders to the IRS or the local authorities pursuant to the terms of an applicable IGA (as the case may be), including certain Shareholders who fail to provide the information and documents required, or non-compliant FFIs or Shareholders that fall within other categories specified in the FATCA provisions and regulations. In any event, the Company shall comply with personal data protection principles, and requirements as set out in the Personal Data (Privacy) Ordinance (Chapter 468 of the Laws of Hong Kong) and all other applicable regulations and rules governing personal data use in Hong Kong from time to time.

Although the Company / the Sub-Fund will endeavour to satisfy any obligations imposed on the Company / the Sub-Fund to avoid the imposition of FATCA withholding tax, no assurance can be given that the Company / the Sub-Fund will be able to fully satisfy these obligations. If the Company / the Sub-Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value of the Sub-Fund may be adversely affected and the Sub-Fund and its Shareholders may suffer material loss.

The FATCA provisions are complex and continue to evolve. As such, the effects which the FATCA provisions may have on the Company and each sub-fund may be subject to change. Withholding may apply to withholdable payments covered by FATCA if the Company and each sub-fund cannot satisfy the applicable requirements and is determined to be non-compliant or if the Hong Kong government is found in breach of the terms of the agreed IGA. The above description is based in part on regulations, official guidance and model 2 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 Shareholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Shareholders 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, Shareholders who hold their Shares 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.

## **GENERAL**

### **Reports**

The Company's and each Sub-Fund's financial year end is on 31 December in each year.

Audited annual financial reports drawn up in accordance with IFRS and unaudited interim financial reports will be prepared for each financial year. Financial reports will be available in English only.

Once financial reports are issued, Shareholders will be notified of where such reports, in printed and electronic forms, can be obtained. Such notices will be sent to Shareholders on or before the issue date of the relevant financial reports, which will be within four months after the end of the financial year in the case of audited annual financial reports, and within two months after 30 June in each year in the case of unaudited interim financial reports. Once issued the financial reports will be available in softcopy from the website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC) and in hardcopy for inspection at the Manager's office free of charge during normal working hours (hardcopies are also available for Shareholders to take away at a charge of HKD120 upon request).

### **Distribution policy**

The Manager has discretion as to whether or not to make any distribution of dividends, the frequency of distribution and amount of dividends in respect of any Sub-Fund, details of which are set out in the relevant Appendix.

### **The Instrument**

The Company was incorporated in Hong Kong under the SFO on 1 November 2022. Its constitution is set out in the Instrument filed to the Companies Registry of Hong Kong on, and effective as of, 1 November 2022 (and as may be further amended, modified or supplemented from time to time). All Shareholders are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Instrument.

### **Indemnities of the Manager**

Under the Management Agreement, the Manager is not liable in respect of any act or omission of:

- (a) any person, firm or company through whom transactions in investments are effected for the account of any Sub-Fund;
- (b) the Custodian;
- (c) the Administrator (if any);
- (d) any party having custody or possession of the Company's assets from time to time; or
- (e) any clearance or settlement system.

Nothing in any of the provisions of the Management Agreement and the Instrument (i) exempts the Manager from or against any liability to Shareholders for breach of its obligations through its fraud or negligence or any liability to Shareholders imposed by virtue of any Hong Kong law in relation to its duties nor (ii) indemnifies the Manager against such liability by Shareholders or at the Shareholders' expense.

Subject to the Instrument, the Company agrees to indemnify and keep indemnified the Manager and the directors, officers and employees of the Manager from and against any and all liabilities,

obligations, losses, damages, suits and expenses (each a "Loss") which may be incurred by or asserted against the Manager in its capacity as Manager of the Company. However, such indemnity excludes Losses resulting from the negligence, wilful default or fraud of the person seeking to rely on this indemnity and excludes expenses incurred by the Manager for which it is responsible under the Management Agreement.

When the Manager appears in, prosecutes or defends any action or suit in respect of the provisions of the Management Agreement or the Instrument or in respect of the Company, any Sub-Fund or any part thereof or any corporate or Shareholders' action which in its opinion would or might involve it in expense or liability, it shall be entitled to be indemnified by the Company out of the relevant Sub-Fund to its satisfaction against any costs or expenses in connection with the Manager appearing, prosecuting or defending such actions or suits.

Nothing in the Management Agreement excludes or restricts the liability to the Company which the Manager may have under the SFO.

No provision of the Instrument or the Management Agreement shall be construed as (i) providing any exemption of any liability of the Manager to the Shareholders under Hong Kong law, nor may the Manager be indemnified against such liability by Shareholders or at the Shareholders' expense, or (ii) diminishing or exempting the Manager from any of its duties and liabilities under applicable Laws and Regulations, and no provision shall have the effect of providing any of such exemption or indemnity.

### **Indemnities of the Custodian**

Subject to the Custodian Agreement, the Company agrees to indemnify the Custodian and its officers, employees, agents and sub-custodians against all liabilities suffered or incurred by the Custodian in connection with its duties under the Custodian Agreement, including but not limited to liabilities incurred as a result of the acts or omissions of the Company, any Sub-Fund or any other person in connection with the Custodian Agreement.

No provision of the Instrument or the Custodian Agreement shall be construed as (i) providing any exemption of any liability of the Custodian to the Shareholders under Hong Kong law or for breach of trust through fraud, wilful misconduct or negligence, nor may the Custodian be indemnified against such liability by Shareholders or at the Shareholders' expense, or (ii) diminishing or exempting the Custodian from any of its duties and liabilities under applicable laws and regulations, and no provision shall have the effect of providing any of such exemption or indemnity.

Nothing in the Custodian Agreement excludes or limits the liability to the Company which the Custodian may have under the SFO.

### **Modification of Instrument**

An amendment to the Instrument may be made to the extent permitted by the Laws and Regulations applicable to the Company and in accordance with the Instrument.

No alteration to this Instrument may be made unless:

- (a) the alteration has been approved by Shareholders by a Special Resolution; or
- (b) the Custodian certifies in writing that in its opinion the proposed alteration:
  - (i) is necessary to make possible compliance with fiscal or other statutory, regulatory or official requirements;

- (ii) does not materially prejudice Shareholders' interests, does not to any material extent release the Directors, the Manager, the Custodian or any other person from any liability to Shareholders and does not increase the costs and charges payable from the Scheme Property; or
- (iii) is necessary to correct a manifest error.

In all other cases involving any material changes, no alteration may be made except by a Special Resolution of Shareholders or the approval of the SFC. The Company shall provide written notice to Shareholders in respect of any alteration to this Instrument and any alteration to the Company generally in accordance with the Laws and Regulations.

### **Removal and Retirement of the Directors**

A person ceases to be a Director if the person:

- (a) ceases to be a Director or is prohibited from being a Director under the applicable Laws and Regulations or under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong);
- (b) becomes bankrupt or makes any arrangement or composition with the person's creditors generally;
- (c) becomes a mentally incapacitated person;
- (d) resigns from the office of Director by notice in writing of the resignation of not less than 28 days;
- (e) for more than 6 months has been absent without the Directors' permission from Directors' meetings held during that period;
- (f) upon the expiry of any period or notice period stated in an agreement for the provision of services between the Company and the Director or if such agreement is summarily terminated in accordance with its terms; or
- (g) is removed from the office of Director by an ordinary resolution (as defined in the Instrument).

Special notice (in accordance with the applicable Laws and Regulations) is required of a resolution to remove a Director or appoint a person in place of a Director so removed at the meeting at which the Director is removed on or before the expiry of any period of notice of such removal. In relation to a resolution to remove a Director before the end of the Director's term of office, no Share may, on a poll, carry a greater number of votes than it would carry in relation to the generality of matters to be voted on at a general meeting of the Company.

### **Removal and Retirement of the Manager**

Under the Management Agreement, the Manager must retire in the case of (i) below, and must be subject to removal by notice in writing from the Directors in the case of (ii) or (iii) below:

- (i) when it ceases to be eligible to be a Manager or is prohibited from being a Manager under the applicable Laws and Regulations, or when the SFC withdraws its approval of the Manager;
- (ii) when it goes into liquidation, becomes bankrupt or has a receiver appointed over its assets;

- (iii) when for good and sufficient reason, the Directors state in writing that a change in the Manager is desirable in the interests of the Shareholders.

The Manager shall be entitled to retire in favour of some other person considered by the Company to be suitably qualified and approved by the SFC, upon giving written notice to the Company in accordance with the Management Agreement and subject to such person entering into a management agreement similar to the Management Agreement.

In the event that the Manager shall retire or be removed or its appointment shall otherwise terminate, the Company shall appoint another corporation eligible under the Laws and Regulations (as defined in the Management Agreement) to act as the investment manager of an open-ended fund company which is approved by the SFC to be the investment manager of the Company in place of the Manager so retiring or being removed on or before the expiry of any period of notice of such retirement or removal.

The Manager may not retire except upon the appointment of a new Manager approved by the SFC.

### **Removal and Retirement of the Custodian**

Under the Custodian Agreement, the Custodian must retire in the case of (i) below, and must be subject to removal by notice in writing in the case of (ii) and (iii) below:

- (i) when it ceases to be eligible to be a Custodian or is prohibited from being a Custodian under applicable Laws and Regulations, or when the SFC withdraws its approval of the Custodian;
- (ii) when it goes into liquidation, becomes bankrupt or has a receiver appointed over its assets;  
or
- (iii) when for good and sufficient reason, the Directors state in writing that a change in the Custodian is desirable in the interests of the Shareholders.

In the event that the Custodian shall retire or be removed or its appointment shall otherwise terminate, the Company shall appoint another corporation eligible under the Laws and Regulations to act as a custodian of an OFC which is approved by the SFC to be the Custodian in place of the Custodian so retiring or being removed on or before the expiry of any period of notice of such retirement or removal. The retirement of the Custodian should take effect at the same time as the new Custodian takes up office.

The Custodian may not retire except upon the appointment of a new Custodian approved by the SFC.

### **Termination (otherwise than by winding up)**

Without prejudice to any provision in the applicable Laws and Regulations by virtue of which the Company, or a Sub-Fund or a class of Shares may be terminated, the Company, a Sub-Fund or a class of Shares may be terminated, subject to and in accordance with the applicable Laws and Regulations, by the Directors in their absolute discretion if:

- (a) in the case of a Sub-Fund including classes therein, 1 year from the date of the first issue of Share relating to the relevant Sub-Fund or at any date thereafter the Net Asset Value of the relevant Sub-Fund is less than USD10,000,000 or its equivalent in the base currency of the Sub-Fund;
- (b) in the case of a class only, there are no Shareholders of such class in a Sub-Fund;

- (c) in the case of the Company, 1 year from the date of the first issue of Shares relating to the first Sub-Fund or at any date thereafter the Net Asset Value of the Company is less than USD10,000,000 or its equivalent in the base currency of the Company;
- (d) any law shall be passed which renders it illegal or in the reasonable opinion of the Directors impracticable or inadvisable to continue the relevant Sub-Fund or the Company.

The Directors shall give reasonable notice of termination of the Company, the relevant Sub-Fund, or the class of Shares (as the case may be) to the Shareholders in the Company, the relevant Sub-Fund or the class of Shares (as the case may be) in such manner and with such contents which are compliant with the applicable Laws and Regulations, and by such notice fix the date on which such termination is to take effect, provided that no less than one month's notice will be given to the relevant Shareholders in case of termination of the Company or a Sub-Fund. Shareholders' approval is not required to effect termination of the Company or a Sub-Fund.

With effect on and from the date as at which the Company or any Sub-Fund is to terminate:

- (a) no Shares of the relevant class or classes may be issued or sold by the Company;
- (b) the Manager shall on the instructions of the Directors realise all the assets then comprised in the relevant Sub-Fund;
- (c) distributions shall be made to the Shareholders of the relevant Class or Classes in proportion to their respective interests in the relevant Sub-Fund all net cash proceeds derived from the realisation of the relevant Sub-Fund and available for the purpose of such distribution, provided that the Custodian shall be entitled to retain out of any monies in its hands as part of the relevant Sub-Fund full provision for all costs, charges, expenses, claims and demands reasonably incurred by or on behalf of the Company, Directors, the Manager or the Custodian in connection with or arising out of the termination of the relevant Sub-Fund; and
- (d) any unclaimed proceeds or other monies held by the Custodian in the event of a termination may at the expiration of 12 calendar months from the date upon which the same became payable be paid into court, subject to the right of the Custodian to deduct therefrom any expenses it may incur in making such payment.

Every such distribution shall be made in such manner as the Directors shall at their reasonable discretion determine but shall be made only against the production of such evidence relating to the Shares of the relevant class or classes in respect of which the same is made and upon delivery of such form of request for payment as shall be reasonably required.

## **Winding Up**

Subject to any other provisions applicable to the specific Sub-Fund set out in the relevant Appendix to this Explanatory Memorandum, the rights of the Shareholders to participate in the property comprised in a Sub-Fund on a winding up of the Company or a Sub-Fund shall be proportionate to the proportionate interests in the Sub-Fund represented by the Shares which they hold.

If the Company or a Sub-Fund is wound up and a surplus remains after the payment of debts proved in the winding up, the liquidator:

- (a) may, with the required sanction of a Special Resolution (as defined in the Instrument) of the Company or Shareholders of the relevant Sub-Fund and any other sanction required by the Laws and Regulations, divide amongst the Shareholders the whole or any part of the assets of the Company or relevant Sub-Fund (whether they consist of property of the same kind or

not) and may, for this purpose, set a value the liquidator thinks fair on any property to be so divided; and

- (b) may determine how the division is to be carried out between the Shareholders or different classes of Shareholders.

### **Meetings of Shareholders and voting rights**

Meetings of Shareholders may be convened by the Directors. Shareholders representing at least 10% of the total voting rights of all the Shareholders having a right to vote may require a meeting to be convened. A general meeting at which (a) a Special Resolution (as defined in the Instrument) is to be proposed must be called by notice of at least 21 days in writing; and (b) an Ordinary Resolution (as defined in the Instrument) is to be proposed must be called by notice of at least 14 days in writing.

The quorum for all meetings is Shareholders present in person or by proxy representing 10% of the Shares for the time being in issue except for the purpose of passing a Special Resolution. The quorum for passing a Special Resolution is Shareholders present in person or by proxy representing 25% or more of the Shares in issue. In the case of an adjourned meeting of which separate notice will be given, such Shareholders as are present in person or by proxy will form a quorum. Every individual Shareholder present in person, by proxy or by representative has one vote for every Share of which he is the Shareholder. In the case of joint Shareholders 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 Shareholders.

The Instrument contains provisions for the holding of separate meetings of Shareholders holding Shares of different classes where only the interests of Shareholders of such class are affected.

### **Transfer of Shares**

Shares may be transferred by an instrument in writing in any usual form or any other form approved by the Directors 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 Shareholder of the Shares transferred until the name of the transferee is entered in the Register of Shareholders in respect of such Shares. A reasonable fee may be charged by the Company for registering any instrument of transfer or other document relating to or affecting the title to any Share.

Transfers of Shares are subject to prior consent of the Directors and the Directors may instruct the Custodian not to enter the name of a transferee in the Register or recognise a transfer of any Shares if the Directors believe that such will result in or is likely to result in the contravention of any applicable laws or requirements of any country or region, any governmental authority or any stock exchange (if any) on which such Shares are listed.

### **Documents available for inspection**

Copies of the Instrument of the Company, the Management Agreement, Custodian Agreement and the latest audited annual and unaudited interim financial reports (if any) of the Company and each Sub-Fund are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the offices of the Manager. Copies of the Instrument can be purchased from the Manager at a nominal amount.

### **Anti-Money Laundering Regulations**

As part of the Custodian's and the Manager's responsibility to prevent money laundering, they and/or their respective delegates or agents may require detailed verification of a prospective investor's identity and the source of the payment of application monies. Depending on the

circumstances of each application, a detailed verification may not be required where: (a) the prospective investor makes payment from an account in the prospective investor's name at a recognised financial institution; (b) the prospective investor is regulated by a recognised regulatory authority; or (c) the application is made through a recognised financial intermediary. The exceptions will only apply if the financial institution, regulatory authority or intermediary referred to above is within a country or jurisdiction recognised by Hong Kong as having sufficient anti-money laundering regulations.

The Custodian, the Manager and their respective delegates and agents each 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 by any of the above parties, the Manager may refuse to accept the application and return the application monies relating to such application.

The Company also reserves the right to refuse to make any redemption payment to a Shareholder if the Manager reasonably suspects or is advised that the payment of redemption proceeds to such Shareholder 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 to ensure the compliance by the Company or the relevant Sub-Fund(s) or the Custodian or the Manager or other service provider to the Company with any such laws or regulations in any relevant jurisdiction.

None of the Custodian, the Manager or their respective delegates or agents shall be liable to the prospective investor or Shareholder for any loss suffered by such party as a result of the rejection or delay of any subscription application or payment of redemption proceeds.

### **Liquidity Risk Management**

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

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

The liquidity management policy involves monitoring the profile of investments held by each Sub-Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as disclosed in this Explanatory Memorandum, and will facilitate compliance with each Sub-Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of each Sub-Fund under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may reduce the redemption requests in respect of a Sub-Fund rateably and pro rata amongst all Shareholders seeking to redeem Shares on the relevant Dealing Day and carry out only sufficient redemptions which, in aggregate, amount to 10% (or such higher percentage as the Manager may determine in respect of a Sub-Fund as permitted by the SFC) of the total number of Shares in the relevant Sub-Fund then in issue (subject to the conditions under the section headed "Deferred Redemption").

## Conflicts of Interest

The Manager, the Custodian and the Administrator (and any of their affiliates) (each a “relevant party”) may from time to time act as Custodian, administrator, registrar, manager, custodian, investment manager or investment delegate, 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 any Sub-Fund. It is, therefore, possible that any relevant party may, in the course of business, have potential conflicts of interest with the Company or any Sub-Fund. Each relevant party will, at all times, have regard in such event to its obligations to the Company and the relevant Sub-Fund and will endeavour to ensure that such conflicts are resolved fairly. Each relevant party shall be entitled to retain for its own use and benefit all fees and other monies payable thereby and shall not be deemed to be affected with notice of or to be under any duty to disclose to the Company, any Sub-Fund, any Shareholder or any other relevant party any fact or thing which comes to the notice of the relevant party in the course of its rendering services to others or in the course of its business in any other capacity or in any manner whatsoever, otherwise than in the course of carrying out its duties under the Instrument. In any event, the Manager will ensure that all investment opportunities will be fairly allocated.

The Manager has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure that clients’ interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of client complaints. The Manager has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Manager will ensure that all investment schemes and accounts which it manages, including each Sub-Fund, are treated fairly.

It is expected that transactions for any Sub-Fund may be carried out with or through Connected Persons of the Manager. The Manager will ensure that all transactions carried out by or on behalf of each Sub-Fund will be in compliance with all applicable laws and regulations. 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 ensure that all such transactions are conducted on an arm’s length basis and are consistent with best execution standards, and will monitor such transactions to ensure compliance with the Manager’s obligations. 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 of that size and nature. The nature of any such transactions and the total commissions and other quantifiable benefits received by such Connected Persons will be disclosed in the relevant Sub-Fund’s annual report.

## Notices

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

### *Company*

ChinaAMC ESG OFC  
37/F, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

### *Manager*

China Asset Management (Hong Kong) Limited

37/F, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

*Custodian*  
HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

**Websites**

The offer of the Shares is made solely on the basis of information contained in this Explanatory Memorandum. This Explanatory Memorandum may refer to information and materials included in websites, which may be updated or changed from time to time without any notice. Such information and materials do not form part of this Explanatory Memorandum and they have not been reviewed by the SFC. Investors should exercise an appropriate degree of caution when assessing the value of such information and materials.

## **APPENDIX 1: ChinaAMC Asia ESG Bond Fund**

*This Appendix (which forms part of, and should be read together with the rest of, the Explanatory Memorandum) relates to the ChinaAMC Asia ESG Bond Fund (the “Sub-Fund”), a Sub-Fund of the Company. All references in this Appendix to the Sub-Fund are to ChinaAMC Asia ESG Bond Fund. Terms defined in the main body of this Explanatory Memorandum have the same meaning when used in this Appendix.*

### **Base Currency**

The Base Currency of the Sub-Fund is the USD.

### **Business Day**

The Business Day in respect of the Sub-Fund is 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 Custodian 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 Custodian determine otherwise.

### **Investment Objective**

The Sub-Fund aims to maximise income with investment consistent with the principles of environmental, social and governance (“ESG”) and a focus in the Asia region.

There can be no assurance that the Sub-Fund will achieve its investment objective.

### **Investment Strategy**

The Sub-Fund seeks to achieve its investment objective by investing (a) at least 70% of its Net Asset Value in fixed income and debt instruments issued or guaranteed by issuers domiciled in, or exercising the principal part of their economic activities in, the Asia region; and (b) at least 70% of its Net Asset Value in fixed income and debt instruments which have entered the Manager’s proprietary ESG bond pool (the “Bond Pool”) built based on a number of ESG selection criteria. Fixed income and debt instruments may include, but are not limited to, corporate bonds, convertible bonds, preferred shares, and/or bonds issued or guaranteed by listed or unlisted corporations, financial institutions, government and/or government related entities.

### **ESG policy**

The Sub-Fund will invest in fixed income and debt instruments which have entered the Bond Pool built in accordance with the ESG policy described below:

#### **1. Exclusion policy**

The Manager intends to exclude fixed income and debt instruments issued by companies in violation of the Ten Principles of the United Nations Global Compact. In addition, companies under categories of (i) controversial weapons; (ii) tobacco; (iii) cannabis; (iv) gambling; (v) adult entertainment; (vi) coal; and (vii) fossil fuel, will be excluded from the Bond Pool. Companies that are involved in manufacturing controversial weapons include but are not limited to companies that research, manufacture, and trade civilian firearms, cluster bombs, anti-personnel mines, chemical or biological weapons. For the avoidance of doubt, companies under categories of coal and fossil fuel which engage in active transition to low-carbon economy will not be excluded. A company under categories of coal and fossil fuel will be assessed as engaging in active transition to low-carbon economy if (a) the company has reduced carbon

emissions in the original production process and improved the cleanliness of products by optimising existing technologies or adopting new technologies, and at the same time, held clear goals and paths towards the low-carbon transition; or (b) the company has participated in the transformation of green or clean energy projects, and maintained clear plans as well as timetable for replacing existing traditional energy.

## 2. Bond Pool construction

After applying the exclusion policy, the Manager will utilise its proprietary ESG rating model (as detailed below) to screen the investment universe and construct the Bond Pool. Each bond issuer will be assigned a final ESG score derived from the proprietary ESG rating model. The Manager will then form the Bond Pool by making use of (i) best-in-class and (ii) strong momentum as the screening criteria. Bonds which satisfy any one of the two screening criteria will enter the Bond Pool. The Bond Pool will be updated on a monthly basis.

- Best-in-class – bonds issued by an Asian bond issuer who has to demonstrate an outperforming ESG profile measured by the Manager's ESG rating model. The Manager will conduct the best-in-class screening using a two-dimensional "Region x Industry" approach. Each "Region x Industry" group has been assigned a threshold determined through the Manager's qualitative assessment as described below, and only bonds issued by a bond issuer within that specific group who has a final ESG score over the threshold can enter the Bond Pool.
- Strong momentum – bonds issued by an Asian bond issuer who has to demonstrate an improving ESG profile measured by the Manager's ESG rating model. During the Bond Pool construction process, the Manager will consider not only the current ESG score of an Asian bond issuer but also its historical trend of ESG scores. If an Asian bond issuer demonstrates a good ESG momentum, which means its ESG score improves from time to time, and passes the internal momentum threshold predetermined by the Manager, the bonds issued by such issuer will enter the Bond Pool. The Manager will perform ongoing monitoring to ensure that if issuers whose bonds that are selected into the Bond Pool based on the screening criteria of strong momentum do not exhibit any improvement in ESG profile over time, the Sub-Fund will dispose of such bonds in a gradual and orderly manner which the Manager considers is in the best interests of the Shareholders taking into account the market conditions.

### *Proprietary ESG rating model*

The Manager builds its in-house Asia bond ESG rating model as follows:

- The Manager will make use of the data from three ESG data providers, namely MSCI, Sustainalytics and Truvalue Labs. All of the three named ESG data providers are third parties independent from the Manager or its Connected Persons. The Manager will first take into account and aggregate the ESG scores of each Asian bond issuer from these three ESG data providers to form an initial ESG score for each issuer, and then adjust each initial score by applying statistical analysis to form a final ESG score. The final ESG score of each bond issuer will be used during the Bond Pool construction process. The model will be updated on a monthly basis and on an ad-hoc basis upon occurrence of major events in the market.
- In addition to the aforementioned quantitative assessment, the Manager will perform a two-dimensional qualitative assessment to evaluate a bond issuer based on its region in the Asia market and industry. The Manager will consider a number of ESG factors, such as energy consumption, pollution, green transition and investments, social importance, anti-graft endeavours, strength of governmental support and related party transactions, which provide insights into how each region and industry should be weighted in the Bond Pool and

determine the threshold for each “Region x Industry” group when applying “best-in-class” ESG score screening criterion during the construction process of the Bond Pool. Furthermore, the Manager will study the characteristics of and rating methodologies behind the ESG score compiled by each ESG data provider and analyse how ESG factors are integrated in the rating methodologies of ESG data providers.

- For bond issuers of regions and sectors which are not well covered by the ESG data providers, such as Chinese local government financing vehicles (“LGFVs”) and Chinese property developers, the Manager will construct a specialised ESG rating framework by forming a scorecard for bonds issued by such issuers based on ESG factors specific to these sectors, such as government support, social welfare impact, anti-corruption management, and corporate governance, to evaluate such issuers.

After applying the above screening criteria, it is expected that no less than 50% of the bonds in the investment universe will be filtered out to form the Bond Pool.

To maintain investment flexibility, the Manager may also invest in green, social, sustainability (GSS) labelled bonds, which are bonds so classified in accordance with the relevant principles of the International Capital Market Association (the “ICMA”), including green bonds, social bonds, sustainability bonds, and sustainability-linked bonds. The GSS bonds verified by independent third-party agencies will enter the Bond Pool by default. For self-reported GSS bonds, the Manager will conduct internal verification based on communications with the bond issuers, as well as analysis of their use of proceeds and bond covenants to conclude whether the self-reported GSS bonds meet the ICMA’s principles, before adding them to the Bond Pool.

Subject to the abovementioned exclusion policy, the Sub-Fund may also invest in fixed income and debt instruments issued by Asian bond issuers and non-Asian bond issuers outside the Bond Pool (which are regarded as having low ESG ratings) for less than 30% of the Sub-Fund’s Net Asset Value, on the basis that such issuers are showing improvement in ESG ratings. The Manager will perform ongoing monitoring to ensure that if such issuers do not show any improvement in ESG profile over time, the Sub-Fund will dispose of such bonds in a gradual and orderly manner which the Manager considers is in the best interests of the Shareholders taking into account market conditions. For the avoidance of doubt (i) such issuers that show improvement in ESG ratings do not include those selected under the criterion of strong momentum for the Bond Pool (as prescribed under “Bond Pool construction”), and (ii) the Sub-Fund will invest at least 70% of its NAV in the Bond Pool that satisfy the above ESG selection criteria. The Sub-Fund’s portfolio is ESG tilting constructed with an aim to investing in companies demonstrating good ESG characteristics and/or positive ESG trend. In relation to investment outside Asia region (i.e. for less than 30% of the Sub-Fund’s NAV), the Manager will update the Offering Documents of the Sub-Fund and issue prior notice to the Shareholders if applying the Bond Pool screening criteria to non-Asian bond issuers.

#### Credit rating

In terms of credit rating, no more than 50% of the Sub-Fund’s Net Asset Value may be invested in fixed income and debt instruments which, or the issuers of which, are below investment grade (i.e. having a credit rating of Ba1 or BB+ or below rated by Standard & Poor’s, Fitch, Moody’s or other equivalent recognized credit rating agency) or unrated. The Sub-Fund may only invest in onshore RMB bonds which, or the issuers of which, have a credit rating of AA+ or above rated by China Chengxin International Credit Rating Co., Ltd. or China Lianhe Credit Rating Co., Ltd. or equivalent ratings by one of the local rating agencies recognized by the relevant authorities in Mainland China.

Where the Manager foresees any event of a credit downgrade, removal of credit rating or default of the issuer of a fixed income or debt instrument, which is the usual case, the Manager will rebalance the Sub-Fund’s portfolio prior to the occurrence of such event. If such event cannot be foreseen, the instrument will be removed from the Sub-Fund’s portfolio as soon as practicable by the Manager in view of the market circumstances after the occurrence of such event, taking due

account of the interests of the Sub-Fund's investors. In any event, the rectification will be carried out within a reasonable period and will be done in a gradual and orderly manner in light of the then prevailing market conditions.

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

Up to 30% of the Sub-Fund's Net Asset Value may be invested in debt instruments with loss-absorption features (including contingent convertible bonds (Additional Tier 1 and Tier 2 Capital Instruments), senior non-preferred debt securities, instruments issued under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules and other similar instruments that may be issued by banks or other financial institutions).

#### Mainland China exposure

The Sub-Fund may have significant exposure but less than 70% of its Net Asset Value in fixed income and debt instruments issued or guaranteed by issuers domiciled or carrying out the predominant part of their economic activities in Mainland China ("PRC bonds"). Such PRC bonds may be onshore RMB bonds or bonds issued outside of Mainland China.

Subject to the limit of investing less than 70% of the Sub-Fund's Net Asset Value in PRC bonds above, the Sub-Fund may invest up to 15% of its Net Asset Value directly in onshore RMB bonds via the Manager's QFI status or in the Mainland inter-bank bond markets (the "Mainland Inter-bank Bond Market") under Foreign Access Regime and/or Bond Connect. Amongst the 15% of the Sub-Fund's Net Asset Value in onshore RMB bonds, the Sub-Fund's aggregate exposure to investments in LGFVs in China and China's property developers will not exceed 15% of its Net Asset Value. In any case, the Sub-Fund's aggregate exposure to investments, whether directly or indirectly, in securities issued in the Mainland China market including but not limited to A-Shares, B-Shares, onshore RMB bonds, and such other financial instruments permitted under applicable PRC regulations will not exceed 20% of its Net Asset Value.

The Sub-Fund may also invest up to 15% of its Net Asset Value in dim sum bonds (i.e. bonds issued outside of Mainland China but denominated in RMB).

The Sub-Fund will not invest more than 20% of its Net Asset Value in any single country/jurisdiction other than the foregoing exposure to Mainland China.

#### Other investments

Exposure to fixed income and debt instruments may be obtained indirectly through exchange traded funds ("ETFs") or other collective investment schemes consistent with the Sub-Fund's investment objective and strategy.

The Sub-Fund may, in aggregate, invest up to 30% of its Net Asset Value in one or more collective investment schemes which are authorized by SFC or eligible schemes (as defined in the UT Code) including but not limited to ETFs or UCITS managed by the Manager, its Connected Persons or a third party. Up to 10% of the Sub-Fund's Net Asset Value may be invested in non-eligible schemes or schemes not authorised by the SFC. Investments in ETFs 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 UT Code.

Under normal circumstances, the Sub-Fund may hold no more than 20% of its Net Asset Value in cash or cash equivalents, such as cash deposits, certificates of deposit, commercial paper, treasury bills, money market funds managed by the Manager, its Connected Persons or a third party, and other cash equivalent instruments. The Sub-Fund may hold up to 30% of its Net Asset Value in

cash or cash equivalents on a temporary basis for liquidity management and/or defensive purposes under exceptional circumstances.

The Sub-Fund may invest in FDIs for hedging purposes only, to the extent permitted by the investment restrictions of the UT Code and the main body of this Explanatory Memorandum. Currently the Sub-Fund has no intention to enter into securities lending, repurchase or reverse repurchase transactions or other similar over-the-counter transactions.

The Sub-Fund will not invest in collateralised and/or securitised securities (including asset-backed securities, mortgage-backed securities and asset-backed commercial paper). The Sub-Fund may borrow up to 10% of its Net Asset Value on a temporary basis for the purpose of meeting redemption requests or defraying operation expenses. All of the Sub-Fund's investments will be subject to the restrictions set out in Chapter 7 of the UT Code.

### **QFI regime**

Please refer to the section headed "QFI regime" in the main body of the Explanatory Memorandum for details relating to the QFI regime.

All of the Sub-Fund's assets in the PRC (including onshore PRC cash deposits and its onshore A-Shares portfolio and B-Shares portfolio) will be held by the Custodian (through the PRC custodian) in accordance with the terms of the PRC custodian agreement and PRC participation agreement. A securities account shall be opened with the China Securities Depository and Clearing Co., Ltd. ("CSDCC") in the joint names of the Manager (as the QFI holder) and the Sub-Fund. An RMB special deposit account shall also be established and maintained with the PRC custodian in the joint names of the Manager (as the QFI holder) and the Sub-Fund. The PRC custodian shall, in turn, have a cash clearing account with CSDCC for trade settlement according to applicable regulations.

### **Investment in the Mainland Inter-bank Bond Market via Foreign Access Regime and Northbound Trading Link under Bond Connect**

Please refer to the sections headed "Investment in the Mainland Inter-bank Bond Market via Foreign Access Regime" and "Investment in the Mainland Inter-bank Bond Market via Northbound Trading Link under Bond Connect" in the main body of the Explanatory Memorandum.

### **Investment Restrictions**

No waivers from the investment restrictions set out in the main body of the Explanatory Memorandum have been sought or granted by the SFC.

### **Available classes**

The Sub-Fund currently has the following classes of Shares which are available to investors:

- Class A USD (Acc) / Class A USD (Dist)
- Class A RMB (Acc) / Class A RMB (Dist)
- Class A HKD (Acc) / Class A HKD (Dist)
- Class I USD (Acc) / Class I USD (Dist)
- Class I RMB (Acc) / Class I RMB (Dist)
- Class I HKD (Acc) / Class I HKD (Dist)

The Manager may in future determine to issue additional Classes.

### **Initial Offer Period**

The Initial Offer Period of the Sub-Fund commenced at 9:00 a.m. (Hong Kong time) on 8 February 2023 and ended at 4:00 p.m. (Hong Kong time) on 9 February 2023 (or such other dates or times as the Manager may determine).

### **Initial Subscription Price**

The initial Subscription Price for each Class is as follows:

- Class A USD (Acc/Dist): USD10 per Share
- Class A RMB (Acc/Dist): RMB10 per Share
- Class A HKD (Acc/Dist): HKD10 per Share
- Class I USD (Acc/Dist): USD10 per Share
- Class I RMB (Acc/Dist): RMB10 per Share
- Class I HKD (Acc/Dist): HKD10 per Share

The Manager may at any time decide to close the Sub-Fund to further subscriptions before the end of the Initial Offer Period without any prior or further notice.

### **Dealing procedures**

For details of dealing procedures, please refer to the information below and in the sections headed “Subscription of Shares”, “Redemption of Shares” and “Switching” in the main body of this Explanatory Memorandum. The following apply to the Sub-Fund:

<i>Dealing Day</i>	each Business Day
<i>Dealing Deadline</i>	4:00 pm (Hong Kong time) on the relevant Dealing Day

Investors should note that subscription monies in respect of the Sub-Fund must be paid in the currency of denomination of the relevant class of Shares. Redemption proceeds will be paid to redeeming Shareholders in the currency of denomination of the relevant class of Shares.

### **Payment of redemption proceeds**

As set out in the main body of this Explanatory Memorandum, 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 currency of denomination of the relevant class of Shares by telegraphic transfer, within 5 Business Days after the relevant Dealing Day and in any event within one calendar month of the relevant Dealing Day or (if later) receipt of a properly documented redemption request, unless the market(s) in which a substantial portion of the Sub-Fund’s investments is made is subject to legal or regulatory requirements (such as foreign currency controls) which render the payment of the redemption proceeds within the aforesaid time period not practicable, but in such a case the SFC’s prior approval will be sought before extending the time frame for payment, and such extended time frame should reflect the additional time needed in light of the specific circumstances in the market(s) in question.

## Investment Minima

The following investment minima apply to the Sub-Fund:

Class	Minimum initial investment	Minimum subsequent investment	Minimum redemption amount
Class A USD (Acc/Dist)	USD1,000	USD1,000	USD1,000
Class A RMB (Acc/Dist)	RMB10,000	RMB10,000	RMB10,000
Class A HKD (Acc/Dist)	HKD10,000	HKD10,000	HKD10,000
Class I USD (Acc/Dist)	USD1,000,000	USD1,000,000	USD10,000
Class I RMB (Acc/Dist)	RMB5,000,000	RMB5,000,000	RMB100,000
Class I HKD (Acc/Dist)	HKD5,000,000	HKD5,000,000	HKD100,000

The Manager reserves the right to waive the minimum initial investment, minimum subsequent investment and minimum redemption amount requirements for any Class of Shares.

## Subscription Price and Redemption Price

The Subscription Price and Redemption Price of the Sub-Fund (in respect of Class A and Class I) on any Dealing Day will be the price per Share 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 Shares of that class then in issue and rounded to 4 decimal places (0.00005 and above being rounded up; below 0.00005 being rounded down) or in such manner and to such other number of decimal places as may from time to time be determined by the Manager. Any rounding adjustment will be retained by the relevant class.

## Publication of Net Asset Value

The latest Subscription Price and Redemption Price in respect of Shares or the Net Asset Value per Share of the Sub-Fund are available on the Manager's website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC).

## Expenses and Charges

The following are the actual fees and charges payable in respect of the Sub-Fund. Maximum fees permitted to be charged on one months' notice to Shareholders are set out under the section entitled "Expenses and Charges" in the main body of this Explanatory Memorandum. The Manager may in its discretion bear part of or all of the costs attributable to the Sub-Fund.

### Fees payable by Shareholders

	<u>Class A</u>	<u>Class I</u>
<b>Subscription fee* ^</b>	Up to 5% of the subscription amount	Up to 5% of the subscription amount
<b>Switching fee (i.e. conversion fee)* ^</b>	Up to 1% of the redemption price for each Share converted	Up to 1% of the redemption price for each Share converted
<b>Redemption fee* ^</b>	Up to 5% of the redemption price for each Share redeemed	Up to 5% of the redemption price for each Share redeemed

^ Investors should check with distributors for the current level of subscription, switching and redemption

fees.

#### Fees payable by the Sub-Fund

	<u><b>Class A</b></u>	<u><b>Class I</b></u>
<b>Management fee</b>	1.50%* per annum of the Net Asset Value of the relevant class of Shares	0.60%* per annum of the Net Asset Value of the relevant class of Shares
<b>Performance fee</b>		Nil
<b>Custodian and administration fee</b>	Up to 2%* of the Net Asset Value of the Sub-Fund	

\* Please note that some fees may be increased up to a permitted maximum amount by providing one month's prior notice to Shareholders. Please refer to the section headed "Expenses and Charges" in the main body of this Explanatory Memorandum for further details on the permitted maximum of such fees allowed.

#### Establishment costs

The costs of establishing the Sub-Fund are approximately HKD830,000. These costs are charged to the Sub-Fund and are being amortized over the first 5 accounting periods of the Sub-Fund (or such other period as determined by the Manager) on a straight-line basis.

#### **Additional Risk Factors**

The following risk factors are specific to the Sub-Fund. Investors should also note the risk factors applicable to all Sub-Funds, including the Sub-Fund, which are set out in the section entitled "Risk Factors" in the main body of this Explanatory Memorandum.

#### Investment risk

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

#### Risk of investing in fixed income and debt instruments

##### *Interest rate risk*

The Sub-Fund's investments in fixed income and debt instruments are subject to interest rate risk. Generally, the value of fixed income and debt instruments is expected to be inversely correlated with changes in interest rates. As interest rates rise, the market value of fixed income and debt instruments tends to decrease. Long-term fixed income and debt instruments in general are subject to higher sensitivity to interest rate changes than short-term fixed income and debt instruments. Any increase in interest rates may adversely impact the value of the Sub-Fund's portfolio.

As the Sub-Fund may invests in fixed income and debt instruments in an emerging market (for example, the Mainland China markets), the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies an emerging market country/region (including monetary policy and fiscal policy) may have an influence over such country/region's capital markets and affect the pricing of the bonds in the Sub-Fund's portfolio, which may in turn adversely affect the return of the Sub-Fund.

##### *Credit risk and risk of credit rating downgrades*

Investment in fixed income and debt instruments is subject to the credit risk of the issuers which may be unable or unwilling to make timely payments of principal and/or interest, and the value of the Sub-Fund is affected by the credit worthiness of its underlying investments. In the event of a default or credit rating downgrading of the fixed income and debt instruments (or the issuers thereof) held by the Sub-Fund, valuation of the Sub-Fund's portfolio may become more difficult, the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuers who may be incorporated in countries/regions other than Hong Kong and therefore not subject to the laws of Hong Kong.

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

#### *Volatility and liquidity risk*

The fixed income and debt instruments in certain emerging markets (such as Mainland China) may be subject to higher volatility and lower liquidity compared to more developed markets. The prices of securities traded in such markets may be subject to fluctuations. The bid and offer spreads of the price of such securities may be large and the Sub-Fund may incur significant trading costs.

#### *Credit rating risks and risk of credit rating downgrades*

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

Changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all, which would have an adverse impact on the value and performance of the Sub-Fund. The Manager may or may not be able to dispose of the fixed income and debt instruments that are being downgraded.

#### *Credit rating agency risk*

In respect of investments in Mainland onshore fixed income and debt securities, the credit appraisal system in Mainland China and the rating methodologies employed in Mainland China may be different from those employed in other markets. Credit ratings given by Mainland rating agencies may therefore not be directly comparable with those given by other international rating agencies.

#### *Valuation risk*

Valuation of the Sub-Fund's investments may involve uncertainties and judgemental determinations, and independent pricing information may not at all times be available. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. The value of fixed income and debt instruments may be affected by changing market conditions or other significant events affecting valuation. For example, in the event of the credit rating downgrade of an issuer, the value of the relevant fixed income and debt instrument may decline rapidly, and the value of the Sub-Fund may be adversely affected.

#### *Prepayment risk*

Many fixed income and debt instruments, especially those issued at high interest rates, provide that the issuer may repay them early. Issuers often exercise this right when interest rates decline.

Accordingly, holders of securities that may be called or prepaid may not benefit fully from the increase in value that other fixed-income securities experience when rates decline. Furthermore, in such a scenario the Sub-Fund may reinvest the proceeds of the payoff at then-current yields, which would be lower than those paid by the security that was paid off. Prepayments may cause losses on securities purchased at a premium, and unscheduled prepayments, which will be made at par, will cause the Sub-Fund to experience a loss equal to its pro rata share of any unamortized premium.

### *Sovereign debt obligations*

By investing in debt obligations issued or guaranteed by governmental entities, the Sub-Fund will be exposed to the direct or indirect consequences of political, social and economic changes in various countries and regions. In adverse situations, the sovereign issuers may not be able or willing to repay the principal and/or interest when due or may request the Sub-Fund to participate in restructuring such debts. The Sub-Fund may suffer significant losses when there is a default of sovereign debt issuers.

Political changes in a particular country/region may affect the willingness of a particular government to make or provide for timely payments of its debt obligations. The country/region's economic status, as reflected, among other things, in its inflation rate, the amount of its external debt and its gross domestic product, will also affect the government's ability to honour its obligations.

The ability of governments to make timely payments on their debt obligations is likely to be influenced strongly by the issuer's balance of payments, including export performance, and its access to international credits and investments. To the extent that a particular country/region receives payment for its exports in currencies other than the currency of the relevant debt obligation, such country/region's ability to make debt payments in the currency of the relevant debt obligation could be adversely affected. To the extent that a particular country/region develops a trade deficit, such country/region will need to depend on continuing loans from foreign governments, supranational entities or private commercial banks, aid payments from foreign governments and on inflows of foreign investment. The access of a particular country/region to these forms of external funding may not be certain, and a withdrawal of external funding could adversely affect the capacity of such country/region to make payments on its debt obligations. In addition, the cost of servicing debt obligations can be affected by a change in global interest rates since the majority of these debt obligations carry interest rates that are adjusted periodically based upon global rates.

The Sub-Fund's portfolio may comprise debt obligations of governmental entities and supranational entities, for which a limited or no established secondary market exists. Reduced secondary market liquidity may have an adverse effect on the market price and the Sub-Fund's ability to dispose of particular instruments when necessary to meet liquidity requirements or in response to specific economic events such as deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for such debt obligations may also make it more difficult to obtain accurate market quotations for the purpose of determining the Net Asset Value of the Sub-Fund. Market quotations are generally available on many sovereign debt obligations only from a limited number of dealers and may not necessarily represent firm bids of those dealers or prices for actual sales.

The holder of certain sovereign debt obligations may have limited legal recourse in the event of a default with respect to such obligations. For example, remedies from defaults on certain debt obligations of governmental entities, unlike those on private debt, must, in some cases, be pursued in the courts of the defaulting party itself. Legal recourse therefore may be significantly diminished. Bankruptcy, moratorium and other similar laws applicable to issuers of sovereign debt obligations may be substantially different from those applicable to issuers of private debt obligations. The political context, expressed as the willingness of an issuer of sovereign debt obligations to meet the terms of the debt obligation, for example, is of considerable importance.

In addition, investment in debt obligations of supranational entities is subject to the additional risk that one or more member governments may fail to make required capital contributions to a particular

supranational entity and, as a result, such supranational entity may be unable to meet its obligations with respect to its debt obligations.

#### *Corporate debt obligations*

Investment in debt obligations issued by companies and other entities, is subject to the risk that a particular issuer may not fulfil its payment or other obligations in respect of such debt obligations. Additionally, an issuer may experience an adverse change in its financial condition which may in turn result in a decrease in the credit rating assigned to such issuer and its debt obligations, possibly below investment grade. Such adverse change in financial condition or decrease in credit rating(s) may result in increased volatility in the price of an issuer's debt obligations and negatively affect liquidity, making any such debt obligation more difficult to sell.

#### Risks of investing in unrated or below investment grade fixed income and debt instruments

Fixed income and debt instruments that are below investment grade or unrated are generally subject to a higher degree of credit risk and a lower degree of liquidity, which may result in greater fluctuations in value. The value of these instruments may also be more difficult to ascertain and thus the Net Asset Value of the Sub-Fund may be more volatile.

Adverse events or market conditions may have a larger negative impact on the prices of non-investment grade or unrated fixed income and debt securities than on higher rated fixed income and debt securities. Such instruments are considered to be subject to greater risk of loss of principal and interest than higher-rated fixed income and debt instruments. Such instruments are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal, which may in any case decline during sustained periods of deteriorating economic conditions or rising interest rates. In addition, non-investment grade securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities, although the market values of lower-rated securities tend to react less to fluctuations in interest rate levels than those of higher-rated securities. The market for non-investment grade securities may be thinner and less active than that for investment grade securities, which can adversely affect the prices at which these securities can be sold. To the extent that there is no regular secondary market trading for certain non-investment grade securities, difficulties may be experienced in valuing such securities and, in turn, determining the value of the Sub-Fund's portfolio. In addition, adverse publicity and investor perceptions about non-investment grade securities, whether or not based on fundamental analysis, may tend to decrease the market value and liquidity of such non-investment grade securities. Transaction costs with respect to non-investment grade securities may be higher, and in some cases information may be less available, than is the case with investment grade securities.

Fixed income and debt instruments that are below investment grade or unrated in emerging markets may also be subject to higher volatility and lower liquidity compared to those in more developed markets.

#### Risks associated with ESG investing

The use of ESG criteria in the construction of the portfolio of the Sub-Fund may affect the Sub-Fund's investment performance and, as such, the Sub-Fund may perform differently compared to similar funds that do not use such criteria. ESG-based exclusionary criteria used in selection methodology of the Sub-Fund may result in the Sub-Fund forgoing opportunities to buy certain securities when it might otherwise be advantageous for the Sub-Fund to do so and/or selling securities when it might be disadvantageous to do so. As such, the application of ESG criteria may affect that ability of the Sub-Fund to acquire or dispose of its investments, and may therefore result in a loss to the Sub-Fund.

The Sub-Fund's investments may be concentrated in companies with a greater ESG focus, therefore its value may be more volatile than that of a fund with having a more diverse portfolio of investments.

The securities held by the Sub-Fund may be subject to style drift which no longer meet the Sub-Fund's ESG criteria after its investments. The Manager may need to dispose of such securities when it might be disadvantageous to do so. This may lead to a fall in the value of the Sub-Fund.

The construction of the portfolio of the Sub-Fund is based on, among others, the results from the Manager's ESG assessments as well as the application of certain ESG based exclusion factors. While the Manager has exercised care in its assessment, such assessment may involve the Manager's subjective judgment on certain qualitative factors and it is thus possible that the relevant investment criteria may not be applied correctly. It is also possible that the Sub-Fund may perform less well than portfolios with similar investment objectives that are not engaged in similar (or any) ESG assessments and ESG based exclusions.

In evaluating a security or issuer based on ESG criteria, the Manager is dependent upon information and data from data providers (being MSCI, Sustainalytics and Truvalue Labs) or may make use of information and data from internal research inputs, which may be incomplete, inaccurate or unavailable from time to time. This may affect the ability to assess potential securities for inclusion and/or exclusion from the portfolio of the Sub-Fund. All of these can lead to the Sub-Fund forgoing investment opportunities which meet the relevant ESG criteria or investing in securities which do not meet such criteria.

There is a lack of standardised taxonomy in relation to ESG investing strategies. The standard of disclosure adopted by funds in relation to the relevant ESG factors or principles may vary.

#### Concentration in Asian market risk / Emerging market risk

Although there are various investment restrictions with which the Manager has to comply when managing the investments of the Sub-Fund, the concentration of the Sub-Fund's exposure to the Asia market subjects it to greater concentration risk. The Sub-Fund may be more volatile than a broadly-based fund such as a global investment fund as it is more susceptible to fluctuation in value resulting from adverse conditions in the Asian markets.

Certain Asian markets in which the Sub-Fund invests may be emerging market countries (including Mainland China), which may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. For instance, there have been instances of drastic policy changes in Mainland China including regulatory actions against particular companies or sectors, resulting in disruption of prices of the relevant companies as well as the broader financial market. It is difficult to predict when similar actions may be taken, and investors in the Mainland Chinese market such as the Sub-Fund may suffer significant financial losses as a result.

Please also refer to the risk factor "Concentration risk" and "Emerging market risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum for details.

#### Risks associated with investments in debt instruments with loss-absorption features

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

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

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

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

#### Risk associated with investment in contingent convertible bonds

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

Contingent convertible bonds are also subject to additional risks specific to their structure including:

##### *Trigger level risk*

Trigger levels differ and determine exposure to conversion risk. It might be difficult for the Manager to anticipate the trigger events that would require the debt to convert into equity or the write down to zero of principal investment and/or accrued interest. Trigger events may include: (i) a reduction in the issuing bank's Core Tier 1/Common Equity Tier 1 (CT1/CET1) ratio or other ratios, (ii) a regulatory authority, at any time, making a subjective determination that an institution is "non-viable", i.e. a determination that the issuing bank requires public sector support in order to prevent the issuer from becoming insolvent, bankrupt or otherwise carry on its business and requiring or causing the conversion of the contingent convertible bonds into equity or write down, in circumstances that are beyond the control of the issuer or (iii) a national authority deciding to inject capital.

##### *Coupon cancellation risk*

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

##### *Capital structure inversion risk*

Contrary to the classic capital hierarchy, investors in contingent convertible bonds may suffer a loss of capital when equity holders will not, for example when the loss absorption mechanism of a high trigger/write down of a contingent convertible bond is activated. This is contrary to the normal order of the capital structure where equity holders are expected to suffer the first loss.

#### *Call extension risk*

Some contingent convertible bonds are issued as perpetual instruments and only callable at predetermined levels upon approval of the competent regulatory authority. It cannot be assumed that these perpetual contingent convertible bonds will be called on a call date. Contingent convertible bonds are a form of permanent capital. The investor may not receive return of principal as expected on call date or indeed at any date.

#### *Conversion risk*

Trigger levels differ between specific contingent convertible bonds and determine exposure to conversion risk. It might be difficult at times for the Manager to assess how the contingent convertible bonds will behave upon conversion. In case of conversion into equity, the Manager might be forced to sell these new equity shares subject to the investment policy of the Sub-Fund. As a trigger event is likely to be an event which decreases the value of the issuer's common equity, a forced sale may result in the Sub-Fund experiencing loss.

#### *Valuation and write-down risk*

Contingent convertible bonds often offer attractive yield which may be viewed as a complexity premium. The value of contingent convertible bonds may need to be reduced due to a higher risk of overvaluation of such asset class on the relevant eligible markets. Therefore, the Sub-Fund may lose its entire investment or may be required to accept cash or securities with a value less than its original investment.

#### *Market value fluctuations due to unpredictable factors*

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

#### *Liquidity risk*

In certain circumstances finding a buyer ready to invest in contingent convertible bonds may be difficult and the Sub-Fund may have to accept a significant discount to the expected value of the bond in order to sell it.

#### *Sector concentration risk*

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

#### *Subordinated instruments*

Contingent convertible bonds will, in the majority of circumstances, be issued in the form of subordinated debt instruments in order to provide the appropriate regulatory capital treatment prior

to a conversion. Accordingly, in the event of liquidation, dissolution or winding-up of an issuer prior to a conversion having occurred, the rights and claims of the holders of the contingent convertible bonds, such as the Sub-Fund, against the issuer in respect of or arising under the terms of the contingent convertible bonds shall generally rank junior to the claims of all holders of unsubordinated obligations of the issuer.

#### *Novelty and untested nature*

The structure of contingent convertible bonds is innovative yet untested. In a stressed environment, when the underlying features of these instruments will be put to the test, it is uncertain how they will perform.

#### Risks relating to urban investment bonds

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

#### Dim sum bond market risks

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

#### Risks associated with Mainland Inter-bank Bond Market

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

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

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

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

In addition, there is no specific guidance by the Mainland Chinese tax authorities on the treatment of income tax and other tax categories payable in respect of trading in Mainland Inter-bank Bond Market by foreign institutional investors via the Foreign Access Regime or Bond Connect. By investing in the Mainland Inter-bank Bond Market, the Sub-Fund may be at risk of being subject to Mainland Chinese taxes. 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 Sub-Fund could become subject to additional taxation that is not anticipated as at the date hereof or when the relevant investments are made, valued or disposed of. Any of those changes may reduce the income from, and/or the value of, the relevant investments in the Sub-Fund.

#### Risk associated with Bond Connect

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

#### QFI risks

##### *QFI system risks*

The rules regulating investments by QFIs 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 Mainland Chinese authorities in any given situation. Any change to the QFI systems may adversely affect the value of the Sub-Fund's investments. In addition, the Sub-Fund is exposed to the credit risk of the relevant onshore Mainland China custodians and brokers, and a default of any such Mainland China custodian or broker may cause significant losses.

##### *QFI regulation/status risk*

Changes to the foreign investment regulation in Mainland China may be made at any time by the CSRC and the SAFE, and such changes may have a detrimental impact on the ability of the Sub-Fund to achieve its investment objective. There can be no assurance that the QFI status of the Manager will not be suspended or revoked. Such event may hinder the ability of the Sub-Fund to invest in onshore Mainland China instruments, which may in turn affect the Sub-Fund's ability to achieve its investment objective. Changes of the relevant rules may have potential retrospective effect, which may affect the Sub-Fund's ability to acquire securities in Mainland China via the QFI regime.

There can be no assurance that the QFI status of the Manager will not be suspended, revoked or invalidated. Such event may lead to substantial loss in the Sub-Fund as it may affect the implementation of the investment strategy of the Sub-Fund.

##### *Repatriation risk*

There is no assurance that Mainland China rules and regulations in relation to repatriation of funds invested via QFI will not change or that repatriation restrictions will not be imposed in the future. Any new restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests.

#### Risk associated with PRC onshore bonds

##### *PRC sovereign debt risk*

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

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

#### *Settlement risks*

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

To the extent that the Sub-Fund transacts in the Mainland Inter-bank Bond Market, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. All trades settled through CSDCC are on delivery versus payment basis. If a counterparty defaults in delivering the securities, the trade may be cancelled and this may adversely affect the value of the Sub-Fund.

The Sub-Fund may invest in the Chinese bond market via the exchange market and all bond trades will be settled through the CSDCC. If a counterparty defaults in payment or delivery obligation, a trade may be delayed and this may adversely affect the value of the Sub-Fund.

#### Limited availability of offshore RMB fixed income and debt instruments

The quantity of RMB fixed income and debt instruments issued or distributed outside Mainland China that are available is currently limited, and the remaining duration of such instruments may be

short. In the absence of available fixed income and debt instruments, or when such instruments held are at maturity, the Sub-Fund holding such investments may have to allocate a significant portion of its portfolio in RMB negotiated term deposits with authorised financial institutions until suitable fixed income instruments are available in the market. This may adversely affect the relevant Sub-Fund's return and performance.

### Risks associated with Mainland China

#### *Economic, political and social risks*

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

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

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

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

#### *Mainland Chinese laws and regulations risk*

The regulatory and legal framework for capital markets and joint stock companies in Mainland China may not be as well developed as those of developed countries. Laws and regulations in Mainland China affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the legal system in Mainland China develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

Securities exchanges in Mainland 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 Sub-Fund.

### *Potential market volatility risk*

Investors should note that the Mainland Inter-bank Bond Market and the exchanges in Mainland China on which the PRC onshore bonds are traded are undergoing development. High market volatility and potential settlement difficulties in the Mainland China market may also result in significant fluctuations in the prices of the securities traded on such markets and thereby may adversely affect the Net Asset Value of the Sub-Fund.

### *Accounting and reporting standards risk*

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

### *Mainland China taxation risk*

It should be noted that there is a possibility of the tax rules, regulations and practice in Mainland China being changed and taxes being applied retrospectively. In light of the current income tax treatment on capital gains and in order to meet this potential tax liability for capital gains, the Manager may or may not provide for withholding income tax on such gains or income and withhold the tax for the account of the Sub-Fund depending on the channels to invest in PRC onshore bonds.

In the event that actual tax is collected by the SAT to make payments reflecting tax liabilities for which no provisions has been made or that there is any shortfall between any provision made and the actual tax liabilities, the Net Asset Value of the Sub-Fund may be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities or the amount of such shortfall (as the case may be). In this case, the additional tax liabilities will only impact Shares in issue at the relevant time, and the then existing Shareholders and subsequent Shareholders will be disadvantaged as such Shareholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. On the other hand, if the actual tax liabilities are lower than any provision made so that there is an excess in the tax provision amount, investors who have redeemed their Shares before the SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing Shareholders and subsequent Shareholders may benefit if the difference between the tax provision and the actual tax liabilities can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Shareholders who have already redeemed their Shares in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant Mainland China tax authorities and when they subscribed and/or redeemed their Shares. Upon any future resolution of the above-mentioned tax exemption or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the tax provision policy as it considers necessary.

Please refer to the section "Taxation" – "Mainland China Taxation" in the main body of this Explanatory Memorandum for information about Mainland China tax considerations of the Sub-Fund.

### RMB currency and conversion risks (applicable to RMB share classes)

RMB is currently not freely convertible and is subject to exchange controls and restrictions. Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.

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

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

#### Risk associated with investing in other collective investment schemes/funds

The underlying funds in which the Sub-Fund may invest may or 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 Sub-Fund's redemption requests as and when made. There can also be no assurance that an underlying Sub-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 Sub-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.

#### Risk of investing in FDIs and hedging

The Manager may invest in FDIs for hedging purposes subject to the investment restrictions applicable to the Sub-Fund as set out in the UT Code and the main body of this Explanatory Memorandum, and in adverse situations its use of FDIs may become ineffective and/or cause the Sub-Fund to suffer significant loss.

These instruments can be highly volatile and expose investors to increased risk of loss. Risks associated with FDIs include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element / component of an FDI can result in a loss significantly greater than the amount invested in the FDI by the Sub-Fund. Exposure to FDIs may lead to a high risk of significant loss by the Sub-Fund. Please also refer to "Risk of investing in financial derivative instruments" and "Over-the-counter markets risk" under the section headed "Risk Factors" in the main body of this Explanatory Memorandum for further details.

#### Operational and settlement risks

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

As the Sub-Fund may invest in emerging markets (such as Mainland China), it may also be exposed to risks associated with settlement procedures. Any significant delays in the settlement of transactions or the registration of a transfer may affect the ability to ascertain the value of the Sub-Fund's portfolio and adversely affect the Sub-Fund.

#### Exchange rate risk

Underlying investments of the Sub-Fund may be denominated in currencies other than the base currency of the Sub-Fund. Also, a class of Shares of the Sub-Fund may be designated in a currency other than the base currency of the Sub-Fund. The Net Asset Value of the Sub-Fund may be affected unfavourably by fluctuations in the exchange rates between these currencies and the base

currency of the Sub-Fund and by changes in exchange rate controls. The currencies of some underlying assets of the Sub-Fund may not be freely convertible and subject to exchange controls and restrictions.

#### Dividends risk

There is no assurance that the Sub-Fund will declare to pay dividends or distributions. The ability of the Sub-Fund to pay distributions also depends on interest payments made by issuers of the fixed income and debt instruments net of any dividend withholding tax or provision for withholding tax and the level of fees and expenses payable by the Sub-Fund. Investors will not receive any interest payments, dividends or other distributions directly from the issuers of the fixed income and debt instruments within the Sub-Fund's portfolio.

The ability of the issuers of fixed income and debt instruments to make interest payments is based on numerous factors, including their current financial condition and general economic conditions. There can be no assurance that such companies will be able to honour payment obligations.

Investors may not therefore receive any distributions.

#### Distributions out of capital risk

In relation to distributing share classes, the Manager may at its discretion pay dividends out of income or capital (or effectively out of capital) (or partly one and partly the other), and furthermore any applicable charges, fees and expenses of the Sub-Fund may be paid out of the assets of the Sub-Fund. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Share of the relevant class. The Manager may amend its distribution policy with respect to distributions out of capital (and/or effectively out of capital) of the Sub-Fund subject to the SFC's prior approval (if required) and by giving not less than one month's prior notice to Shareholders.

#### Risks relating to FATCA

Please refer to the sub-section entitled "FATCA" under the section headed "Taxation" in the main body of this Explanatory Memorandum for further details on FATCA and related risks.

All prospective investors and Shareholders should consult with their own tax advisers regarding the possible implications of FATCA and the tax consequences on their investments in the Sub-Fund. Shareholders who hold their Shares through intermediaries should also confirm the FATCA compliance status of those intermediaries.

#### **Reports and accounts**

The first unaudited semi-annual report covered the period to 30 June 2023 and first annual report for the Sub-Fund covered the period to 31 December 2023.

#### **Distribution policy**

In relation to accumulating share classes, there will be no dividend distributions. All interest and other income earned on investments will be accumulated and re-invested into the Sub-Fund on behalf of the Shareholders of the accumulating share classes.

In relation to distributing share classes, the Manager currently intends to make monthly dividend distributions, subject to its discretion. The Manager intends to distribute income to Shareholders having regard to the Sub-Fund's net income after fees and costs. Distributions may be paid out of

or effectively out of the capital, which will result in an immediate reduction of the Net Asset Value per Share. Please refer to the risk factor headed “Distributions out of capital risk” above for further details.

Distributions, if any, will be paid in the currency of the relevant distributing classes. Investors should note that there is no guarantee of regular distribution nor, where distribution is made, the amount being distributed. Distributions declared (if any) will be paid to Shareholders at their own risk and expense by telegraphic transfer in the currency of the relevant distributing share classes. Shareholders are advised to check with their brokers/intermediaries on the arrangements concerning distributions.

The amount of dividends, if any, for the last 12 months are available from the Manager on request and are also published on the Manager’s website [www.chinaamc.com.hk](http://www.chinaamc.com.hk) (this website has not been reviewed by the SFC). Any changes regarding the distribution policy will be subject to the SFC’s prior approval and not less than one month’s advance notice to Shareholders.