

IMPORTANT: If you are in any doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent financial advice.

## ***ChinaAMC ETF Series***

# **ChinaAMC CSI 300 Index ETF**

*(A sub-fund of ChinaAMC ETF Series, a Hong Kong umbrella unit trust,  
authorised under Section 104 of the Securities and Futures Ordinance  
(Cap. 571) of Hong Kong)*

***RMB Counter Stock Code: 83188***

***HKD Counter Stock Code: 03188***

# **PROSPECTUS**

***Manager***

**China Asset Management (Hong Kong) Limited**

**December 2019**

The Stock Exchange of Hong Kong Limited, Hong Kong Exchanges and Clearing Limited, Hong Kong Securities Clearing Company Limited and the Hong Kong Securities and Futures Commission (the "SFC") take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus. The Trust and the Sub-Fund have each been authorised as collective investment schemes by the SFC. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

## IMPORTANT INFORMATION

This Prospectus relates to the offer in Hong Kong of units (the “Units”) in the ChinaAMC CSI 300 Index ETF (the “Sub-Fund”), a sub-fund of ChinaAMC ETF Series (the “Trust”), an umbrella unit trust established under Hong Kong law by a trust deed dated 28 May 2012, as amended and restated from time to time (the “Trust Deed”) between China Asset Management (Hong Kong) Limited (the “Manager”) and Cititrust Limited (the “Trustee”). The Sub-Fund is a physical exchange traded fund investing directly in underlying A-Shares.

The information contained in this Prospectus has been prepared to assist potential investors in making an informed decision in relation to investing in the Sub-Fund. It contains important facts about the Sub-Fund whose Units are offered in accordance with this Prospectus. A product key facts statement which contains the key features and risks of the Sub-Fund is also issued by the Manager and such product key facts statement shall form part of this Prospectus, and shall be read, in conjunction with, this Prospectus.

The Manager accepts full responsibility for the accuracy of the information contained in this Prospectus 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. The Manager also confirms that this Prospectus includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Code on Unit Trusts and Mutual Funds (the “Code”) 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 Units of the Sub-Fund. The Trustee is not responsible for the preparation of this Prospectus and shall not be held liable to any person for any information disclosed in this Prospectus, except for the information regarding the Trustee itself under the paragraph headed “The Trustee” in the section on “Management of the Trust”.

The Sub-Fund is a fund falling within Chapter 8.6 of the Code. The Trust and the Sub-Fund are authorised by the SFC in Hong Kong under Section 104 of the Securities and Futures Ordinance. The SFC takes no responsibility for the financial soundness of the Trust, the Sub-Fund or for the correctness of any statements made or opinions expressed in this Prospectus. SFC authorisation is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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

The RMB traded Units are listed on The Stock Exchange of Hong Kong Limited (the “SEHK”). The RMB traded Units have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited (“HKSCC”) for deposit, clearing and settlement in the Central Clearing and Settlement System (“CCASS”). Subject to compliance with the stock admission requirements of HKSCC, the HKD traded Units will be accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the HKD traded Units on the SEHK or on any other date HKSCC chooses. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS settlement day after any trading. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong and, accordingly, the Prospectus does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation. In particular neither the Trust nor the Sub-Fund is registered as an investment company with the United States Securities and Exchange Commission. The Units have not been, and will not be, registered under the United States Securities Act of 1933 or any other United States Federal or State law and, except in a transaction which does not violate the U.S. Securities Act, may not be directly or indirectly offered or sold in the United States of America or any of its territories or for the benefit of a US Person (as defined in Regulations of the U.S. Securities Act). Units may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An ERISA Plan is defined as (i) any retirement plan subject to Title 1 of the United States Employee Retirement Income Securities Act of 1974, as amended; or (ii) any individual retirement account or plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended.

Furthermore, distribution of this Prospectus shall not be permitted unless it is accompanied by a copy of the latest annual financial report of the Sub-Fund (where existing) and, if later, its most recent interim financial report.

You should note that any amendment or addendum to this Prospectus will only be posted on the Manager’s website (<http://etf.chinaamc.com.hk/HKen/CSI300>). This Prospectus may refer to information and materials included in websites. Such information and materials do not form part of the Prospectus and they have not been reviewed by the SFC or any regulatory body. Investors should note that the information provided in websites may be updated and changed periodically without any notice to any person.

**Questions and Complaints**

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

## DIRECTORY

### *Manager*

#### **China Asset Management (Hong Kong) Limited**

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

### *Trustee*

#### **Cititrust Limited**

50/F, Citibank Tower, Citibank Plaza  
3 Garden Road  
Central, Hong Kong

### *PRC Custodian*

#### **Citibank (China) Co., Limited**

Citigroup Tower  
No. 33, Hua Yuan Shi Qiao Road  
Lu Jia Zui Finance and Trade Area  
Shanghai  
PRC 200120

### *Participating Dealers\**

#### **ABN AMRO Clearing Hong Kong Limited**

Level 70, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

#### **BOCI Securities Limited**

18/F, Grand Millennium Plaza,  
181 Queen's Road  
Central, Hong Kong

#### **China International Capital Corporation Hong Kong Securities Limited**

29/F, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

#### **China Merchants Securities (HK) Co., Limited**

48/F., One Exchange Square,  
Central, Hong Kong

#### **CITIC Securities Brokerage (HK) Limited**

26/F CITIC Tower,  
1 Tim Mei Avenue,  
Central, Hong Kong

#### **Credit Suisse Securities (Hong Kong) Limited**

88/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

### *Administrator and Custodian*

#### **Citibank, N.A.**

50/F, Citibank Tower, Citibank Plaza  
3 Garden Road  
Central, Hong Kong

### *Registrar*

#### **Computershare Hong Kong Investor Services Limited**

46/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### *Service Agent*

#### **HK Conversion Agency Services Limited**

2/F, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

### *RMB Counter Market Makers\**

#### **BOCI Securities Limited**

18/F, Grand Millennium Plaza,  
181 Queen's Road  
Central, Hong Kong

#### **Bluefin HK Limited**

8/F, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

#### **Credit Suisse Securities (Hong Kong) Limited**

88/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

#### **Deutsche Securities Asia Limited**

52/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

#### **Optiver Trading Hong Kong Limited**

5202A, 52/F Central Plaza  
18 Harbour Road  
Wan Chai, Hong Kong

**Deutsche Securities Asia Limited**  
52/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**Goldman Sachs (Asia) Securities Limited**  
68th Floor, Cheung Kong Center,  
2 Queen's Road  
Central, Hong Kong

**Guotai Junan Securities (Hong Kong) Limited**  
27/F., Low Block,  
Grand Millennium Plaza, 181 Queen's Road  
Central, Hong Kong

**Haitong International Securities  
Company Limited**  
35/F, Infinitus Plaza,  
199 Des Voeux Road  
Central, Hong Kong

**Merrill Lynch Far East Limited**  
55/F, Cheung Kong Center  
2 Queen's Road  
Central, Hong Kong

**Morgan Stanley Hong Kong Securities Limited**  
Level 46, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**Nomura International (Hong Kong) Limited**  
30/F, Two International Finance Centre,  
8 Finance Street,  
Central, Hong Kong

**SG Securities (HK) Limited**  
Level 19, Three Pacific Place,  
1 Queen's Road East  
Admiralty, Hong Kong

**Standard Chartered Bank (Hong Kong) Limited**  
32/F, 4-4A Des Voeux Road  
Central, Hong Kong

**The Hongkong and Shanghai Banking  
Corporation Limited**  
Level 18, HSBC Main Building  
1 Queen's Road Central  
Hong Kong

**UBS Securities Hong Kong Limited**  
42/F, One Exchange Square  
Central, Hong Kong

**UBS Securities Hong Kong Limited**  
42/F, One Exchange Square  
Central, Hong Kong

*HKD Counter Market Makers\**  
**Bluefin HK Limited**  
8/F, Two Exchange Square  
8 Connaught Place  
Central, Hong Kong

**BNP Paribas Securities (Asia) Ltd.**  
59/F-63/F Two International Finance Centre, 8  
Finance Street, Central, Hong Kong

**BOCI Securities Limited**  
18/F, Grand Millennium Plaza,  
181 Queen's Road  
Central, Hong Kong

**Credit Suisse Securities (Hong Kong)  
Limited**  
88/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**Deutsche Securities Asia Limited**  
52/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**IMC Asia Pacific Limited**  
4703-09, 47/F, The Center,  
99 Queen's Road,  
Central, Hong Kong

**Optiver Trading Hong Kong Limited**  
5202A, 52/F Central Plaza  
18 Harbour Road  
Wan Chai, Hong Kong

**UBS Securities Hong Kong Limited**  
42/F, One Exchange Square  
Central, Hong Kong

*Auditors*  
**Ernst & Young**  
22/F, Citic Tower  
1 Tim Mei Avenue  
Central, Hong Kong

*Legal Counsel to the Manager*  
**Simmons & Simmons**  
30/F, One Taikoo Place  
979 King's Road  
Hong Kong

\* Please refer to the Manager's website for the latest lists of HKD Counter Market Makers, RMB Counter Market Makers and Participating Dealers.

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## DEFINITIONS

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

“After Listing” means the period which commences on the Listing Date and continues until the Sub-Fund is terminated.

“A-Shares” means shares issued by companies incorporated in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, traded in RMB and available for investment by domestic investors, QFIIs and RQFIIs.

“Administrator” means Citibank, N.A., appointed by the Trustee.

“Application” means an application by a Participating Dealer for the creation or redemption of Units, in accordance with the procedures for creation and redemption of Units set out in the Operating Guidelines, the relevant Participation Agreement and the terms of the Trust Deed.

“Application Unit” means such number of Units or whole multiples thereof as specified in this Prospectus or such other whole multiple of Units determined by the Manager, approved by the Trustee and notified to the Participating Dealers.

“Business Day” in respect of the Sub-Fund, means, unless the Manager and the Trustee otherwise agree, a day on which (a)(i) the SEHK is open for normal trading; and (ii) the relevant securities market on which Securities comprised in the Index are traded is open for normal trading or if there are more than one such securities market, the securities market designated by the Manager is open for normal trading, and (b) the Index is compiled and published, or such other day or days as the Manager and the Trustee may agree from time to time provided that if on any such day, the period during which the relevant securities market is open for normal trading is reduced as a result of a Number 8 Typhoon Signal or higher, Black Rainstorm warning or other similar event, such day shall not be a Business Day unless the Manager and the Trustee otherwise agree.

“Cancellation Compensation” means an amount payable for the account of the Sub-Fund by a Participating Dealer in respect of a Default, as set out in the Trust Deed and in the Operating Guidelines applicable at the time the relevant Creation Application or Redemption Application is made.

“CCASS” means the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors.

“CCASS Settlement Day” means the term “Settlement Day” as defined in the General Rules of CCASS.

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

“Connected Person” has the meaning as set out in the Code which at the date of this Prospectus means in relation to a company:

- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or
- (b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or

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

“Creation Application” means an application by a Participating Dealer for the creation and issue of Units in an Application Unit size (or whole multiples thereof) in accordance with the Operating Guidelines and the Trust Deed.

“CSDCC” means the China Securities Depository and Clearing Co., Ltd.

“CSRC” means the China Securities Regulatory Commission.

“Custodian” means Citibank, N.A., appointed by the Trustee.

“Custodian Agreement” means the custody agreement between the Trustee and the Custodian.

“Dealing Day” means each Business Day during the continuance of the Sub-Fund, and/or such other day or days as the Manager may from time to time determine with the approval of the Trustee.

“Dealing Deadline” in relation to any particular place and any particular Dealing Day, means the time on each Dealing Day specified in the “The Offering” section of this Prospectus.

“Default” means a failure by a Participating Dealer in respect of:

- (a) a Creation Application to deliver the relevant cash amount; or
- (b) a Redemption Application to deliver the Units the subject of the Redemption Application and/or relevant cash amount.

“Deposited Property” means, in respect of the Sub-Fund, all the assets (including cash), received or receivable by the Trustee, for the time being held or deemed to be held upon the trusts of the Trust Deed for the account of the Sub-Fund excluding (i) the Income Property and (ii) any amount for the time being standing to the credit of the distribution account of such Sub-Fund.

“Dual Counter” means the facility by which the Units traded in RMB and traded in HKD are each assigned separate stock codes on the SEHK and are accepted for deposit, clearing and settlement in CCASS in more than one eligible currency (RMB or HKD) as described in this Prospectus.

“Duties and Charges” means, in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage fees, bank charges, transfer fees, registration fees, transaction levies and other duties and charges whether in connection with the constitution of the Deposited Property or the increase or decrease of the Deposited Property or the creation, issue, transfer, cancellation or redemption of Units or the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units, a charge (if any) of such amount or at such rate as is determined by the Manager to be made for the purpose of compensating or reimbursing the Trust for the difference between (a) the prices used when valuing the Securities in the Trust Fund for the purpose of such issue or redemption of Units and (b) (in the case of an issue of Units) the prices which would be used when acquiring the same Securities if they were acquired by the Trust with the amount of cash received by the Trust upon such issue of Units and (in the case of a redemption of Units) the prices which would be used when selling the same Securities if they were sold by the Trust in order to realise the amount of cash required to be paid out of the Trust Fund upon such redemption of Units.

“Encumbrance” means any mortgage, charge, pledge, lien, third party right or interest, any other encumbrance or security interest of any kind or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect.

“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.



“Extension Fee” means the fee payable to the Trustee on each occasion the Manager, upon a Participating Dealer’s request, grants the Participation Dealer an extended settlement in respect of a Creation Application or Redemption Application.

“FDI” means financial derivative instrument.

“Government and other Public Securities” has the meaning as set out in the Code which at the date of this Prospectus 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.

“HKD” means Hong Kong dollars, the lawful currency of Hong Kong.

“HKSCC” means the Hong Kong Securities Clearing Company Limited or its successors.

“IFRS” means International Financial Reporting Standards.

“Income Property” means, in respect of the Sub-Fund, (a) all interest, dividends and other sums deemed by the Manager, (after consulting the auditors either on a general or case by case basis), to be in the nature of income (including taxation repayments, if any) received or receivable by the Trustee in respect of the Deposited Property of the Sub-Fund (whether in cash or, without limitation, by warrant, cheque, money, credit or otherwise or the proceeds of sale or transfer of any Income Property received in a form other than cash); (b) all interest and other sums received or receivable by the Trustee in respect of (a), (c) or (d) of this definition; (c) all cash payments received or receivable by the Trustee for the account of the Sub-Fund in respect of an Application; and (d) all Cancellation Compensation received by the Trustee for the account of the Sub-Fund; (e) any payments to be received or are receivable by the Trustee under any contractual agreements for the benefit of the Sub-Fund but excluding (i) the Deposited Property; (ii) any amount for the time being standing to the credit of the distribution account for the account of the Sub-Fund or previously distributed to Unitholders; (iii) gains for the account of the Sub-Fund arising from the realisation of Securities; and (iv) any sums applied towards payment of the fees, costs and expenses payable by the Trust from the Income Property of the Sub-Fund;

“Index” means the CSI 300 Index, the index against which the Sub-Fund is benchmarked.

“Index Provider” means China Securities Index Co., Ltd.

“Insolvency Event” occurs in relation to a person where (i) an order has been made or an effective resolution passed for the liquidation or bankruptcy of the person; (ii) a receiver or similar officer has been appointed in respect of the person or of any of the person’s assets or the person becomes subject to an administration order; (iii) the person enters into an arrangement with one or more of its creditors or is deemed to be unable to pay its debts; (iv) the person ceases or threatens to cease to carry on its business or substantially the whole of its business or makes or threatens to make any material alteration to the nature of its business; or (v) the Manager in good faith believes that any of the above is likely to occur.

“Issue Price” means the price at which Units may be issued, determined in accordance with the Trust Deed.

“Listing Date” means 17 July 2012 being the date on which the Units were listed and from which dealings therein were permitted to take place on SEHK.

“Manager” means China Asset Management (Hong Kong) Limited or such other person or persons for the time being duly appointed manager or managers of the Trust in succession thereto being approved by the SFC as qualified to act as such for the purposes of the Code.

“Market” means in any part of the world:

- (a) in relation to any Security: the SEHK or such other stock exchange from time to time determined by the Manager; and

(b) in relation to any futures contract: the Hong Kong Futures Exchange or such other futures exchange from time to time determined by the Manager.

“Market Maker” means a broker or dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market on the SEHK.

“Net Asset Value” means the net asset value of the Sub-Fund or, as the context may require, the net asset value of a Unit calculated under the Trust Deed.

“Operating Guidelines” means the guidelines for the creation and redemption of Units of a class as set out in the schedule to the Participation Agreement as amended from time to time by the Manager with the approval of the Trustee and following consultation, to the extent reasonably practicable, with the Participating Dealers, and as notified in writing to the Participating Dealers, including without limitation, the procedures for creation and redemption of Units. Unless otherwise specified, references to the Operating Guidelines shall be to the Operating Guidelines for the Sub-Fund applicable at the time of the relevant Application.

“Participating Dealer” means an eligible broker or dealer who is (or who has appointed an agent or delegate who is) a CCASS Participant and who has entered into a Participation Agreement in form and substance acceptable to the Manager and the Trustee. Any reference in this Prospectus to “Participating Dealer” shall, where the context requires, include a reference to a PD Agent so appointed by the Participating Dealer.

“Participation Agreement” means an agreement entered into between the Trustee, the Manager, a Participating Dealer and (where applicable) a PD Agent setting out, (amongst other things), the arrangements in respect of the issue of Units and the redemption and cancellation of Units.

“PBOC” means the People’s Bank of China.

“PD Agent” means a person who is admitted by HKSCC as either a Direct Clearing Participant or a General Clearing Participant (as defined in the General Rules of CCASS) in CCASS and who has been appointed by a Participating Dealer as its agent for the creation and redemption of Units.

“PRC” means the People’s Republic of China, excluding for the purposes of interpretation of this Prospectus only, Hong Kong, Macau and Taiwan.

“PRC Custodian” means Citibank (China) Co., Limited or such other person appointed as PRC custodian of the Sub-Fund.

“PRC Custody Agreement” means the custodian agreement entered into between the Custodian and the PRC Custodian, as amended from time to time.

“PRC RQFII Agreement” means the PRC Country Schedule for RQFII Services entered into between the Manager and the PRC Custodian, as amended from time to time.

“QFII” means a qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time).

“Recognised Futures Exchange” means an international futures exchange which is recognised by the SFC or which is approved by the Manager.

“Recognised Stock Exchange” means an international stock exchange which is recognised by the SFC or which is approved by the Manager.

“Redemption Application” means an application by a Participating Dealer for the redemption of Units in Application Unit size (or whole multiples thereof) in accordance with the Operating Guidelines and the Trust Deed.

“Redemption Value” means, in respect of a Unit, the price per Unit at which such Unit is redeemed, calculated in accordance with the Trust Deed.

“Registrar” means the Computershare Hong Kong Investor Services Limited or such other person appointed as registrar of the Sub-Fund to keep the register of the Unitholders of the Sub-Fund.

“Registrar Agreement” means the agreement entered into between the Trustee, the Manager and the Registrar, as amended from time to time.

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

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

“RQFII” means a Renminbi qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time).

“RQFII Regulations” is as defined on page 8 of this Prospectus.

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

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

“SAT” means the State Administration of Taxation of the PRC.

“Securities” means any shares, stocks, debentures, loan stocks, bonds, securities, commercial paper, acceptances, trade bills, warrants, participation notes, certificates, structured products, treasury bills, instruments or notes of, or issued by or under the guarantee of, any body, whether incorporated or unincorporated, and whether listed or unlisted, or of any government or local government authority or supranational body, whether paying interest or dividends or not and whether fully-paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):

- (a) any right, option or interest (howsoever described) in or in respect of any of the foregoing, including units in any Unit Trust (as defined in the Trust Deed);
- (b) any certificate of interest or participation in, or temporary or interim certificate for, receipt for or warrant to subscribe or purchase, any of the foregoing;
- (c) any instrument commonly known or recognised as a security;
- (d) any receipt or other certificate or document evidencing the deposit of a sum of money, or any rights or interests arising under any such receipt, certificate or document; and
- (e) any bill of exchange and any promissory note.

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

“SEHK” means The Stock Exchange of Hong Kong Limited or its successors.

“Service Agent” means HK Conversion Agency Services Limited or such other person as may from time to time be appointed to act as service agent in relation to the Sub-Fund.

“Service Agent’s Fee” means the fee which may be charged for the benefit of the Service Agent to each Participating Dealer or PD Agent (as the case may be) on each book-entry deposit or withdrawal transaction made by the relevant Participating Dealer or PD Agent (as the case may be), the maximum level of which shall be determined by the Service Agent and set out in this Prospectus.

“Service Agreement” means each agreement by which the Service Agent agrees with the Manager and the Trustee to provide its services entered amongst the Trustee, the Manager, the Registrar, the Participating Dealer, the PD Agent (where applicable), the Service Agent and Hong Kong Securities Clearing Company Limited.

“Settlement Day” means the Business Day which is 2 Business Days after the relevant Dealing Day (or such later Business Day as is permitted in relation to such Dealing Day pursuant to the Operating Guidelines) or such other number of Business Days after the relevant Dealing Day (if any) as determined by the Manager in consultation with the Trustee from time to time and notified to the relevant Participating Dealers.

“SFC” means the Securities and Futures Commission of Hong Kong or its successors.

“SFO” means the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong.

“SSE” means the Shanghai Stock Exchange.

“Stock Connect” means the securities trading and clearing linked programme with an aim to achieve mutual stock market access between mainland China and Hong Kong, comprising the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

“Sub-Fund” means ChinaAMC CSI 300 Index ETF.

“substantial financial institution” has the meaning as set out in the Code.

“SZSE” means the Shenzhen Stock Exchange.

“Transaction Fee” means the fee, in respect of the Sub-Fund, which may be charged for the benefit of the Registrar and/or the Trustee to each Participating Dealer on each Dealing Day upon which an Application has been or Applications have been made by the relevant Participating Dealer.

“Trust” means the umbrella Unit Trust constituted by the Trust Deed and called ChinaAMC ETF Series or such other name as the Manager may from time to time determine.

“Trust Deed” means the trust deed dated 28 May 2012 between the Manager and the Trustee constituting the Trust (as amended and restated from time to time), including an amended and restated trust deed amending and restating the trust deed with effect from 6 December 2019.

“Trust Fund” means all the property held by the Trustee in respect of the Sub-Fund, including the Deposited Property and Income Property attributable to the Sub-Fund, except for amounts to be distributed, in accordance with the Trust Deed.

“Trustee” means Cititrust Limited or such other person or persons for the time being duly appointed as trustee or trustees hereof in succession thereto in accordance with the Trust Deed.

“Unit” means a unit representing an undivided share in the Sub-Fund.

“Unitholder” means a person for the time being entered on the register of holders as the holder of Units including, where the context so admits, persons jointly registered and the beneficial owner of Units which are registered in the name of HKSCC Nominees Limited and held in CCASS.

“Valuation Point” means, in respect of the Sub-Fund, the official close of trading on the Market on which the Securities constituting the Index are listed on each Dealing Day and if more than one, the official close of trading on the last relevant Market to close or such other time or times as determined by the Manager in consultation with the Trustee from time to time provided that there shall always be a Valuation Point on each Dealing Day other than where there is a suspension of the creation and redemption of Units.

## SUMMARY

### Key information

Set out below is a summary of key information in respect of the Sub-Fund which should be read together with the full text of this Prospectus.

<b>Index</b>	CSI 300 Index
<b>Type of index</b>	Price return, i.e. the performance of the Index is calculated on the basis that dividends are not reinvested
<b>Listing Date (SEHK)</b>	17 July 2012
<b>Commencement of Dealing (SEHK)</b>	17 July 2012 – RMB counter 26 October 2012 – HKD counter
<b>Exchange Listing</b>	SEHK – Main Board
<b>Stock Code</b>	83188 – RMB counter 03188 – HKD counter
<b>Short Stock Name</b>	CAM CSI300-R – RMB counter CAM CSI300 – HKD counter
<b>Trading Board Lot Size</b>	200 Units – RMB counter 200 Units – HKD counter
<b>Base Currency</b>	Renminbi (RMB)
<b>Trading Currency</b>	Renminbi (RMB) – RMB counter Hong Kong dollars (HKD) – HKD counter
<b>Distribution Policy</b>	The Manager intends to distribute income to Unitholders at least annually (usually in July) having regard to the Sub-Fund's net income after fees and costs. <b>All Units (whether HKD traded Units or RMB traded Units) will receive distributions in RMB only.</b> <sup>#</sup>
<b>Creation/Redemption Policy</b>	Cash (RMB) only
<b>Application Unit size (only by or through Participating Dealers)</b>	Minimum 150,000 Units (or multiples thereof) or such other number of Units as the Manager may determine
<b>Management Fee</b>	Currently 0.70% per year of the Net Asset Value
<b>Investment Strategy</b>	Primarily full replication. The Manager may also use a representative sampling strategy. Please refer to the section on "What is the investment strategy?" below
<b>Financial Year End</b>	31 December
<b>Website</b>	<a href="http://etf.chinaamc.com.hk/HKen/CSI300">http://etf.chinaamc.com.hk/HKen/CSI300</a>

<sup>#</sup> Both HKD traded Units and RMB traded Units will receive distributions in RMB only. In the event that the relevant Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency. Unitholders are advised to check with their brokers for arrangements concerning distributions and to consider the risk factor entitled "RMB distributions risk" below.

### **What is the investment objective?**

The investment objective of the Sub-Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the Index. There can be no assurance that the Sub-Fund will achieve its investment objective.

### **What is the investment strategy?**

In seeking to achieve the Sub-Fund's investment objective, the Manager will primarily use a full replication strategy through investing directly in Securities included in the Index in substantially the same weightings in which they are included in the Index, through the RQFII investment status granted to the Manager by the CSRC and the Stock Connect. The Manager may invest up to 100% of the Sub-Fund's NAV through either RQFII and/or the Stock Connect.

The Manager may also use a representative sampling strategy where it is not possible to acquire certain Securities which are constituents of the Index due to restrictions or limited availability. This means that the Sub-Fund will invest directly in a representative sample of Securities that collectively has an investment profile that aims to reflect the profile of the Index, through the RQFII investment status granted to the Manager by the CSRC (as explained in the section on "What is the RQFII regime" below) and the Stock Connect (as explained in the section on "What is the Stock Connect" below). The Securities constituting the representative sample may or may not themselves be constituents of the Index. In pursuing a representative sampling strategy, the Manager may cause the Sub-Fund to deviate from the index weighting on condition that the maximum deviation from the index weighting of any constituent will not exceed 4% or such other percentage as determined by the Manager after consultation with the SFC.

The Sub-Fund may also invest not more than 5% of its Net Asset Value in money market instruments and in cash deposits for cash management purpose.

As a result of corporate actions of constituent companies of the Index, securities that are not constituents of the Index, including but not limited to equity securities, debt securities, convertible bonds and other derivative instruments, may be held by the Sub-Fund. Holdings of such securities will not exceed 10% of the Net Asset Value.

Apart from those received in corporate actions as described above, currently the Manager has no intention to invest the Sub-Fund in any FDIs (including structured products or instruments) for hedging or non-hedging (i.e. investment) purposes. The Manager will seek the prior approval of the SFC (if required) and provide at least one month's prior notice to Unitholders before the Manager engages in any such investments.

The investment strategy of the Sub-Fund is subject to the investment and borrowing restrictions set out in Schedule 1.

### **What is the RQFII regime?**

Under current regulations in the PRC, foreign investors can invest only in the domestic securities market through certain foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC for the purpose of investing in the PRC's domestic securities markets.

The RQFII regime was introduced on 16 December 2011 by the "Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors which are Asset Management Companies or Securities Companies" (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) issued by the CSRC, the PBOC and the SAFE, which was repealed effective 1 March 2013.

The RQFII regime is currently governed by (i) the "Notice of the People's Bank of China on the Relevant Matters concerning the Implementation of the Pilot Measures for Domestic Securities Investment Made by the Renminbi Qualified Foreign Institutional Investors", issued by the PBOC and effective from 2 May 2013 (中國人民銀行關於實施《人民幣合格境外機構投資者境內證券投資試點辦

法》有關事項的通知); (ii) the “Implementation Rules for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors” issued by the CSRC and effective from 6 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定); (iii) the “Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors”, Huifa 2013 No. 42 (國家外匯管理局關於人民幣合格境外機構投資者境內證券投資試點有關問題的通知, 匯發[2013]42 號) issued by SAFE and effective from 21 March 2013; (iv) the “Notice of the People’s Bank of China on the Relevant Matters concerning the Implementation of the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors”, issued by the PBOC and effective from 2 May 2013 (中國人民銀行關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》有關事項的通知); and (v) any other applicable regulations promulgated by the relevant authorities (collectively, the “RQFII Regulations”).

All of the Sub-Fund’s assets in the PRC (including onshore PRC cash deposits and its onshore A-Shares portfolio) will be held by the PRC Custodian in accordance with the terms of the PRC Custody Agreement and PRC RQFII Agreement. A securities account shall be opened with CSDCC in the joint names of the Manager (as the RQFII holder) and the Sub-Fund. An RMB cash account shall also be established and maintained with the PRC Custodian in the joint names of the Manager (as the RQFII 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.

The Manager has obtained a legal opinion confirming that, as a matter of PRC law:

- (a) securities account(s) with the CSDCC and maintained by the PRC Custodian and RMB cash account(s) with the PRC Custodian (respectively, the “Securities Account” and the “Cash Account”) have been opened in the joint names of the Manager (as RQFII holder) and the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approval from all competent authorities in the PRC;
- (b) the assets held/credited in the Securities Account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder), the PRC Custodian and any broker appointed by the Manager to execute transactions for the Sub-Fund in the PRC (a “PRC Broker”), and from the assets of other clients of the Manager (as RQFII holder), the PRC Custodian and any PRC Broker;
- (c) the assets held/credited in the Cash Accounts (i) become an unsecured debt owing from the PRC Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as RQFII holder) and any PRC Broker, and from the assets of other clients of the Manager (as RQFII holder) and any PRC Broker;
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the Securities Account(s) and the debt in the amount deposited in the Cash Accounts of the Sub-Fund;
- (e) if the Manager or any PRC Broker(s) is liquidated, the assets contained in the Securities Account(s) and Cash Accounts of the Sub-Fund will not form part of the liquidation assets of the Manager or such PRC Broker in liquidation in the PRC; and
- (f) if the PRC Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Custodian in liquidation in the PRC, and (ii) the assets contained in the Cash Accounts of the Sub-Fund will form part of the liquidation assets of the PRC Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Accounts.

Repatriations in RMB conducted by the Manager as RQFII on behalf of the Sub-Fund are permitted daily and are not subject to any lock-up periods or prior approval.

There are specific risks associated with the RQFII regime and investors’ attention is drawn to the

risk factors under “Risks associated with the RQFII regime” in the section on “Risk Factors” below.

### **What is the 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 SEHK 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 PRC securities firms and securities trading service companies established by the SSE and the SZSE, are able to trade eligible shares listed on the SEHK by routing orders to the SEHK.

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

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

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

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

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

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

*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 the Sub-Fund and are utilised on a first-come-first-serve basis. The SEHK 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 is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market



participants and investors. Accordingly investors do not hold SSE Securities or SZSE Securities directly – these are held through their brokers' or custodians' accounts with CCASS.

*Corporate actions and shareholders' meetings* – Notwithstanding the fact that HKSCC does not claim proprietary interests in the SSE Securities or SZSE Securities held in its omnibus stock account in the CSDCC, the CSDCC as the share registrar for SSE or SZSE listed companies still treats the HKSCC as one of the shareholders when it handles corporate actions in respect of such SSE Securities or SZSE Securities. The HKSCC will monitor the corporate actions affecting SSE Securities or SZSE 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.

*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 determined by the relevant authorities.

*Coverage of Investor Compensation Fund* – The Sub-Fund's investments through Northbound trading under Stock Connect is not covered by Hong Kong's 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. Since default in Northbound trading via Stock Connect do not involve products listed or traded in the SEHK or the Hong Kong Futures Exchanges Limited, such trading is not covered by Hong Kong's Investor Compensation Fund. On the other hand, since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, such trading is not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC.

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).

### **What are the Index's characteristics?**

The Index is a free-float adjusted, category-weighted index which measures the performance of A-Shares traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. The Index consists of the 300 stocks with the largest market capitalisation and good liquidity from the entire universe of listed A-Shares companies in the PRC. The Index is calculated and disseminated in RMB on a real-time basis and is maintained by China Securities Index Co., Ltd. The Index is quoted in RMB.

The Index is a price return index. A price return index calculates the performance of the Index constituents on the basis that any dividends or distributions are not reinvested.

As of 8 November 2019, the Index had a total free-float market capitalisation of 12.91 trillion and 300 constituents.

Please see Schedule 2 for information regarding the Index and the Index Provider's disclaimer.

### **Are there any special RMB payment or account procedures?**

Investors may, unless otherwise agreed by the relevant Participating Dealer, apply for Units through Participating Dealers only if they have sufficient RMB to pay the application monies and the related fees. Investors should note that RMB is the only official currency of the PRC. While both onshore RMB ("CNY") and offshore RMB ("CNH") are the same currency, they are traded in different and separated markets. Since the two RMB markets operate independently where the flow between them is highly restricted, CNY and CNH are traded at different rates and their movement may not be in the same direction. Although there is a significant amount of RMB held offshore (i.e. outside the PRC), CNH cannot be freely remitted into the PRC and is subject to certain restrictions, and vice versa. As such whilst CNH and CNY are both the same currency, certain special restrictions do

apply to RMB outside the PRC. The liquidity and trading price of the Sub-Fund may be adversely affected by the limited availability of, and restrictions applicable to, RMB outside the PRC.

Application monies from Participating Dealers to the Sub-Fund will be paid in RMB only. Accordingly a Participating Dealer may require you (as its client) to pay RMB to it. Payment details will be set out in the relevant Participating Dealer's documentation such as the application form for its clients. As such, you may need to have opened a bank account (for settlement) and a securities dealing account if a Participating Dealer is to subscribe for Units on your behalf as you will need to have accumulated sufficient RMB to pay at least the aggregate Issue Price and related costs, to the Participating Dealer or if an application to the Participating Dealer is not successful or is successful only in part, the whole or appropriate portion of the monies paid will need to be returned to you by the Participating Dealer by crediting such amount into your RMB bank account. Similarly, if you wish to buy and sell Units in the secondary market on the SEHK, you may need to open a securities dealing account with your broker. You will need to check with the relevant Participating Dealer and/or your broker for payment details and account procedures.

If any investors wish to buy or sell Units on the secondary market, they should contact their brokers and they are reminded to confirm with their brokers in respect of Units traded in RMB their brokers' readiness for dealing and/or clearing transactions in RMB securities and to check other relevant information published by the SEHK regarding readiness of its participants for dealing in RMB securities from time to time. CCASS Investor Participants who wish to settle the payment in relation to their trades in the Units traded in RMB using their CCASS Investor Participant account or to receive distributions in RMB should make sure that they have set up an RMB designated bank account with CCASS.

Investors intending to purchase Units traded in RMB from the secondary market should consult their stockbrokers as to the RMB funding requirement and settlement method for such purchase. Investors may need to open and maintain securities dealing accounts with the stockbroker first before any dealing in Units traded in either HKD or RMB can be effected.

Investors should ensure they have sufficient RMB to settle trades of Units traded in RMB. Investors should consult the banks for the account opening procedures as well as terms and conditions of the RMB bank account. Some banks may impose restrictions on their RMB cheque account and fund transfers to third party accounts. For non-bank financial institutions (e.g. brokers), however, such restriction may not be applicable and investors should consult their brokers as to the currency exchange service arrangement if required.

The transaction costs of dealings in the Units on the SEHK include the SEHK trading fee and SFC transaction levy. All these secondary trading related fees and charges will be collected in Hong Kong dollars and, in respect of Units traded in RMB, calculated based on an exchange rate as determined by the Hong Kong Monetary Authority on the date of the trade which will be published on HKEx's website by 11:00 a.m. or earlier on each trading day.

Investors should consult their own brokers or custodians as to how and in what currency the trading related fees and charges and brokerage commission should be paid by the investors.

Where payment in RMB is to be made by cheque investors are advised to consult the bank at which their respective RMB bank accounts are opened in advance whether there are any specific requirements in relation to the issue of RMB cheques. In particular, investors should note that some banks have imposed an internal limits (usually RMB80,000) on the balance of RMB cheque account of their clients or the amount of cheques that their clients can issue in a day and such limit may affect an investor's arrangement of funding for an application (through a Participating Dealer) for creation of Units.

When an individual investor opens an RMB bank account or settle RMB payments, he or she will be subject to a number of restrictions, including the daily maximum remittance amount to the PRC of RMB80,000, and a remittance service is only available to an RMB deposit account-holder who remits from his or her RMB deposit account to the PRC and provided that the account name of the account in the PRC is identical with that of the RMB bank account with the bank in Hong Kong

Please also refer to the section entitled “Risks associated with the RMB currency” in the section on “Risk Factors” for further details.

### **Umbrella fund**

The Trust is an umbrella unit trust created by the Trust Deed made under Hong Kong law between the Manager and the Trustee. The Manager and the Trustee shall create and establish separate and distinct sub-trusts within the Trust, each of which is a sub-fund, and units relating to any sub-fund may be issued in one or more classes.

The Sub-Fund is a sub-fund of the Trust.

The Manager and the Trustee reserve the right to establish other sub-funds and/or issue further classes of units relating to the Sub-Fund or any of the sub-funds in the future in accordance with the provisions of the Trust Deed.

## THE OFFSHORE RMB MARKET AND THE A-SHARES MARKET

### The offshore RMB market

#### *What led to RMB internationalisation?*

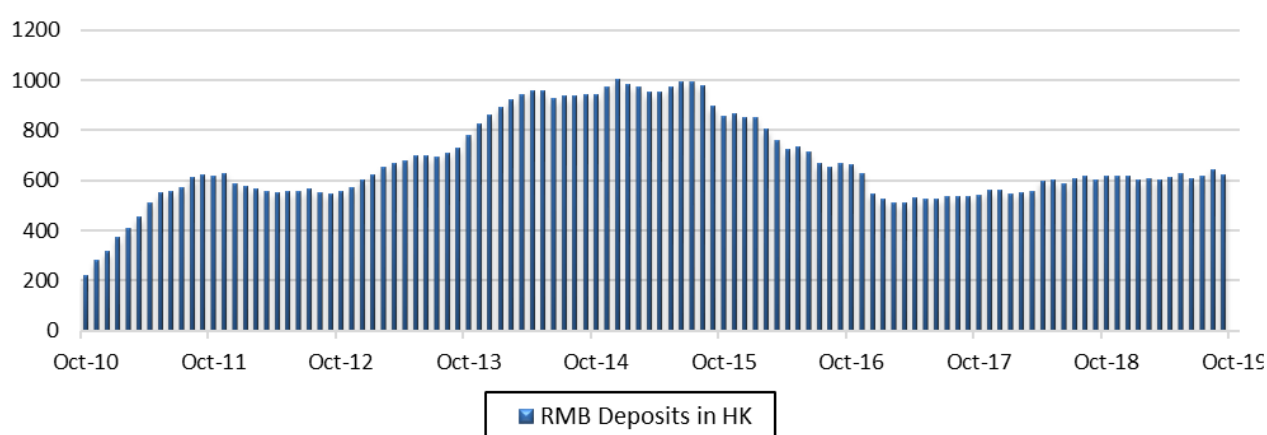
RMB is the lawful currency of the PRC. RMB is not a freely convertible currency and it is subject to foreign exchange control policies of and repatriation restrictions imposed by the PRC government. Since July 2005, the PRC government began to implement a controlled floating exchange rate system based on the supply and demand in the market and adjusted with reference to a portfolio of currencies. The exchange rate of RMB is no longer pegged to US dollars, resulting in a more flexible RMB exchange rate system.

Over the past two decades, the PRC's economy grew rapidly at an average annual rate of 10.5% in real terms. This enables it to overtake Japan to become the second largest economy and trading country in the world. The International Monetary Fund has projected that the PRC at 6.3 percent growth rate in 2016 will still be a top contributor to global growth. As the PRC's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

#### *Accelerating the pace of the RMB internationalisation*

The PRC has been taking gradual steps to increase the use of RMB outside its borders by setting up various pilot programmes in Hong Kong and neighbouring areas in recent years. For instance, banks in Hong Kong were the first permitted to provide RMB deposits, exchange, remittance and credit card services to personal customers in 2004. Further relaxation occurred in 2007 when the authorities allowed PRC financial institutions to issue RMB bonds in Hong Kong. As of August 2019, there are 135 banks in Hong Kong engaging in RMB business, with RMB deposits amounting to about RMB644 billion, as compared to about RMB315 billion in December 2010. Up to the end of 2018, the outstanding RMB bonds amounted to about RMB419 billion yuan.

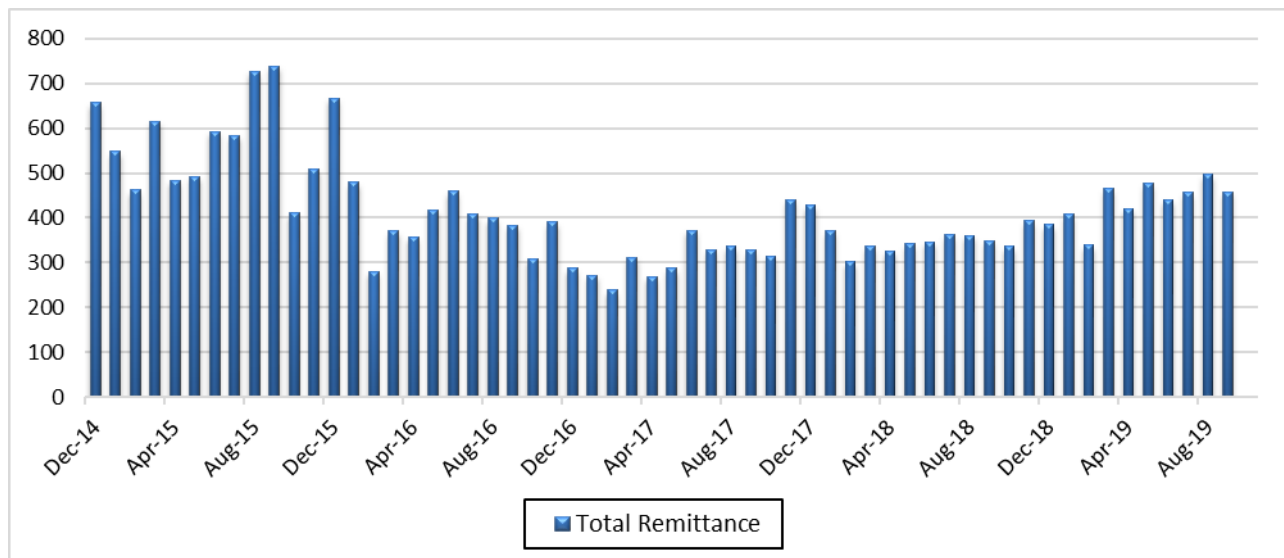
Chart 1. RMB Deposits in Hong Kong



Source: Hong Kong Monetary Authority. Data as of 31 October 2019.

The pace of RMB internationalisation has accelerated since 2009 when the PRC authorities permitted cross-border trade between Hong Kong / Macau and Shanghai / four Guangdong cities, and between Association of Southeast Asian Nations (ASEAN) and Yunnan/Guangxi, to be settled in RMB. In June 2010, the arrangement was expanded to 20 provinces / municipalities on the PRC and to all countries / regions overseas. In August 2019, nearly RMB4973 billion worth of cross-border trade was settled in Hong Kong with RMB.

Chart 2. Remittances for RMB cross-border trade settlement



Source: Hong Kong Monetary Authority. Data as of 31 October 2019

### Onshore versus offshore RMB market

Following a series of policies introduced by the PRC authorities, a RMB market outside the PRC has gradually developed and started to expand rapidly since 2009. RMB traded outside the PRC is often referred as “offshore RMB” with the denotation “CNH”, which distinguishes it from the “onshore RMB” or “CNY”.

Both onshore and offshore RMB are the same currency but are traded in different markets. Since the two RMB markets operate independently where the flow between them is highly restricted, onshore and offshore RMB are traded at different rates and their movement may not be in the same direction. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The relative strength of onshore and offshore RMB may change significantly, and such change may occur within a very short period of time.

Notwithstanding that the offshore RMB market showed a meaningful growth in the recent years, it is still at an early stage of the development and is relatively sensitive to negative factors or market uncertainties. For instance, the value of offshore RMB had once dropped by 2% against the US dollars in the last week of September 2011 amidst the heavy selloff of the equities market. In general, the offshore RMB market is more volatile than the onshore one due to its relatively thin liquidity.

There have been talks on the potential convergence of the two RMB markets but that is believed to be driven by political decisions rather than just economics. It is widely expected that the onshore and offshore RMB markets would remain two segregated, but highly related, markets for the next few years.

### Recent measures

More measures to relax the conduct of offshore RMB business were announced in 2010. On 19 July

2010, restrictions on interbank transfer of RMB funds were lifted, as well as granting permission for companies in Hong Kong to exchange foreign currencies for RMB without limit. One month later, the PRC authorities announced the partial opening up of PRC's interbank bond market for foreign central banks, RMB clearing banks in Hong Kong and Macau and other foreign banks participating in the RMB offshore settlement programme.

The National Twelfth Five-Year Plan adopted in March 2011 explicitly supports the development of Hong Kong as an offshore RMB business centre. In August 2011, PRC Vice-Premier Li Keqiang has announced more new initiatives during his visit, such as allowing investments on the PRC equity market through the RMB Qualified Foreign Institutional Investor scheme and the launch of an exchange-traded fund with Hong Kong stocks as the underlying constituents in the PRC. Also the PRC Government has given approval for the first non-financial PRC firm to issue RMB-denominated bonds in Hong Kong.

### *RMB internationalisation is a long term goal*

Given the PRC's economic size and growing influence, the RMB has the potential to become an international currency in the same rank as US dollars and euro. But the PRC has to first accelerate the development of its financial markets and gradually make the RMB fully convertible on the capital account. Although the internationalisation of RMB will bring benefits such as increasing political influence and reduced exchange rate risks, it also entails risks including rising volatility of the RMB exchange rate.

The process of RMB internationalisation is a long and gradual one. It took US dollars many decades to replace the British pound to become a dominant reserve currency. It will also take time for RMB to gain importance in coming years. The RMB will not be in a position to challenge the US dollar's main reserve currency status for some time to come.

## **The A-Share market**

### *Introduction*

China's A-Share market commenced in 1990 with two exchanges, Shanghai Stock Exchange and Shenzhen Stock Exchange. Shanghai Stock Exchange was established on 26 November 1990 and stocks are further divided into class A-Shares and class B-Shares, with A-Shares limited to domestic investors as well as QFIIs and RQFIIs only and B Shares available to both domestic and foreign investors. As of 5 November 2019, there are 1540 A-Share listed companies in Shanghai Stock Exchange with total market capitalisation of RMB37.55 trillion. Shanghai Stock Exchange's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified financial derivative products (including warrants and repurchases).

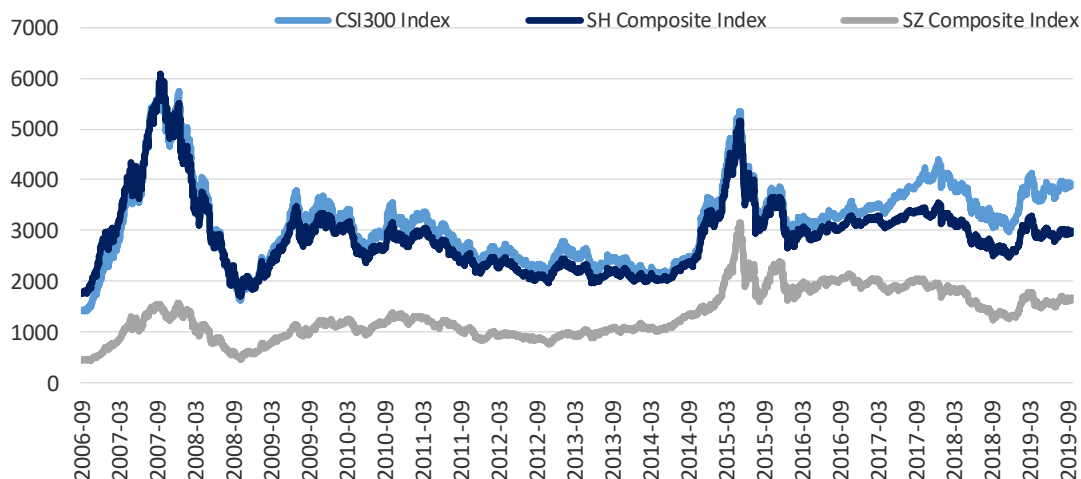
Shenzhen Stock Exchange was founded on 1 December 1990 and stocks are further divided into class A-Shares and class B-Shares, with A-Shares limited to domestic investors as well as QFIIs and RQFIIs only and B-Shares available to both domestic and foreign investors. As of 5 November 2019, there are 2,181 A-Share listed companies in Shenzhen Stock Exchange, 461 of which are listed on the Shenzhen Stock Exchange main board with total market capitalisation of RMB7.25 trillion, 941 of which are listed on the SME board (Small and Medium Enterprise Board) with total market capitalisation of RMB9.30 trillion, and 779 of which are listed on the ChiNext (the board mainly for hi-tech companies) with total market capitalisation of RMB5.66 trillion. Shenzhen Stock Exchange's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified financial derivative products (including warrants and repurchases).

The A-Share market has grown significantly in the past 20 years, with the latest total market capitalisation reaching RMB59.76 trillion comprising 3721 A-Share listed companies by 5 November 2019.

In terms of investor breakdown, there is an increasing number of institutional investors participating in the A-Shares market since the inception, which include securities investment funds, social

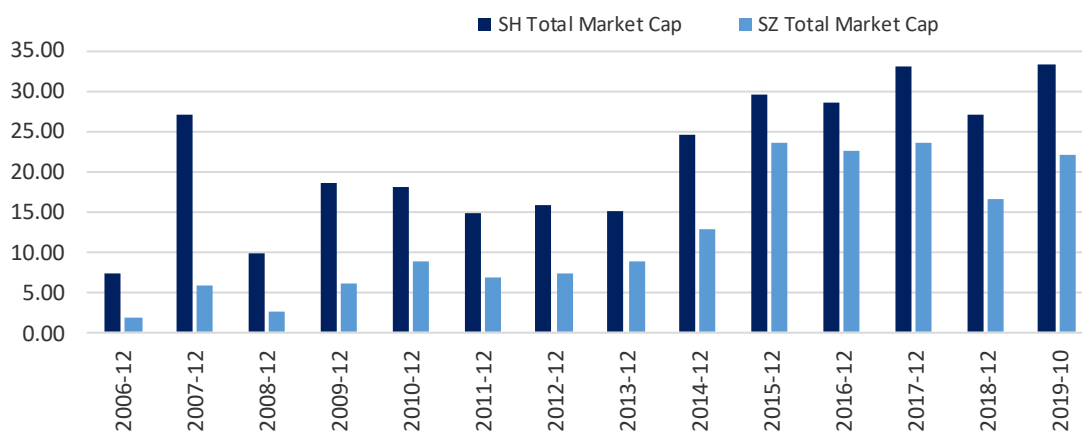
pension funds, qualified foreign institutional investors, insurance companies, ordinary investment institutions. However, on a daily basis, retail investors still make up for the majority of the trading volume.

Chart 1. Shanghai and Shenzhen Composite Index Price / CSI 300 Index Price



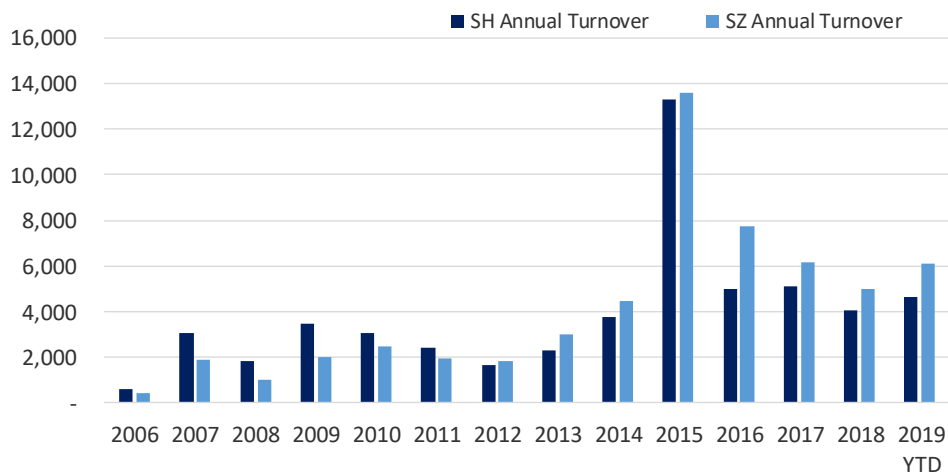
Data source: Wind; As of 31 October 2019

Chart 2. Total market capitalization of Shanghai Stock Exchange and Shenzhen Stock Exchange



Data source: Shanghai and Shenzhen Stock Exchanges; As of 31 October 2019

Chart 3. Annual trading volumes (turnover) of both Shanghai Stock Exchange and Shenzhen Stock Exchange



Data source: Shanghai and Shenzhen Stock Exchanges; As of 31 October 2019

Chart 4. Number of (A-Share) companies listed on both Shanghai Stock Exchange and Shenzhen Stock Exchange



Data source: Shanghai and Shenzhen Stock Exchanges; As of 31 October 2019



*Differences with Hong Kong's stock market*

	<b>PRC</b>	<b>Hong Kong</b>
<b>Key indexes</b>	SHCOMP / SZCOMP / CSI 300	HSI / HSCEI
<b>Trading band limits</b>	<ul style="list-style-type: none"> <li>• 10% for ordinary stocks</li> <li>• 5% for ST/S stocks*</li> </ul>	No Limit
<b>Trading lots</b>	100 shares for BUY / 1 share for SELL **	Each stock has its own individual board lot size (an online broker will usually display this along with the stock price when you get a quote); purchases in amounts which are not multiples of the board lot size are done in a separate "odd lot market".
<b>Trading hours</b>	pre-open: 0915-0925 morning session: 0930-1130 afternoon session: 1300-1500 (1457-1500 is closing auction for the Shenzhen Stock Exchange)	pre-open order input: 0900-0915 pre-order matching 0915-0920 order matching: 0920-0928 morning session: 0930-1200 afternoon session: 1300-1600
<b>Settlement</b>	T+1	T+2
<b>Earnings reporting requirements</b>	Annual report: <ul style="list-style-type: none"> <li>• Full annual report must be disclosed within 4 months after the reporting period.</li> </ul> Interim report: <ul style="list-style-type: none"> <li>• Full report must be disclosed within 2 months after the reporting period.</li> </ul> Quarterly report: <ul style="list-style-type: none"> <li>• Full report must be disclosed within 1 month after the reporting period. The first quarterly report cannot be disclosed before last year's annual report.</li> </ul>	Annual report: <ul style="list-style-type: none"> <li>• Earnings must be disclosed within 3 months after the reporting period;</li> <li>• Full annual report must be disclosed within 4 months after the reporting period.</li> </ul> Interim report: <ul style="list-style-type: none"> <li>• Earnings must be disclosed within 2 months after the reporting period;</li> <li>• Full report must be disclosed within 3 months after the reporting period.</li> </ul>

*Note:*

\* 1) ST stocks refer to special treatment stocks, which means special treatment for companies with financial problems (consecutive 2 fiscal years loss or audited net assets per share less than par value in most recent fiscal year), effective date starting from 22 April 1998. Stocks with ST usually means they have delisting risk.

2) S stocks refer to those stocks has not yet performed the "split share structure reform".

\*\* Purchasing in odd lot is not allowed while selling in odd lot is allowed in the A-Share market, with no price difference between odd lot and round lot trading.

## THE OFFERING

### After Listing

The After Listing phase commenced on the Listing Date.

You can acquire or dispose the Units in either of the following two ways:

- (a) buy and sell Units on the SEHK; or
- (b) apply for cash creation and cash redemption of Units through Participating Dealers.

#### *Buying and selling of Units on the SEHK*

After Listing, all investors can buy and sell Units in Trading Board Lot Size (as described in the section “Summary”) or whole multiples thereof like ordinary listed stocks through an intermediary such as a stockbroker or through any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open. The Trading Board Lot Size is currently 200 Units.

However, please note that transactions in the secondary market on the SEHK will occur at market prices which may vary throughout the day and may differ from Net Asset Value per Unit due to market demand and supply, liquidity and scale of trading spread for the Units in the secondary market. As a result, the market price of the Units in the secondary market may be higher or lower than Net Asset Value per Unit.

Please refer to the section on “Exchange Listing and Trading (Secondary Market)” for further information in respect of buying and selling of Units on the SEHK.

#### *Creations and redemptions through Participating Dealers*

Units are created by cash creation (in RMB only) and redeemed by cash redemption (in RMB only) at the Issue Price and Redemption Value respectively through Participating Dealers in Application Unit size or multiples thereof. The Application Unit Size is currently 150,000 Units.

The current Dealing Deadline After Listing is 10:45 a.m. (Hong Kong time) on the relevant Dealing Day, or such other time as the Manager (with the approval of Trustee) may determine on any day when the trading hours of the SEHK or the Shanghai Stock Exchange and the Shenzhen Stock Exchange are changed. If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. Participating Dealers are under no obligation to create or redeem generally or for their clients and may charge their clients such fee or fees as such Participating Dealers determine.

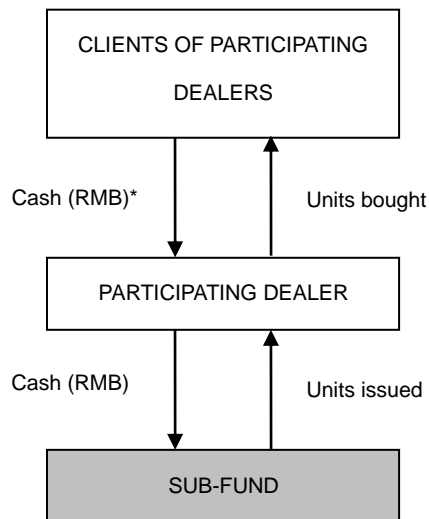
Settlement in cash for subscribing Units is due by such time as agreed in the Operating Guidelines on the relevant Dealing Day or for redeeming Units is due 2 Business Days after the Dealing Day, unless the Manager agrees with the relevant Participating Dealer to accept later settlement generally or in any particular case. Notwithstanding the Dual Counter for Units, all settlement shall be in RMB only.

After Listing, all Units are registered in the name of HKSCC Nominees Limited on the register of the Trust. The register of the Trust is the evidence of ownership of Units. The beneficial interests in Units of any client of the Participating Dealers shall be established through such client’s account with the relevant Participating Dealer or PD Agent (as the case may be) or with any other CCASS participants if the client is buying from the secondary market.

## Diagrammatic illustration of investment in the Sub-Fund

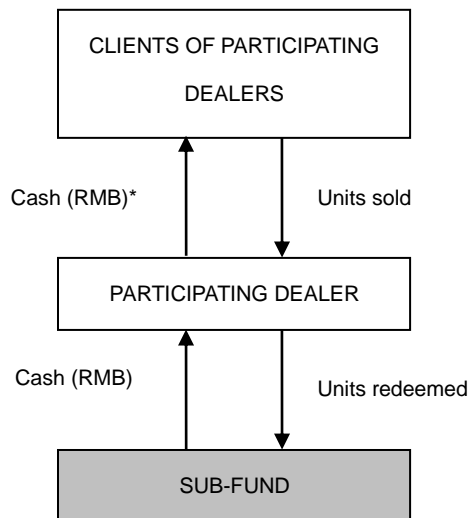
The diagrams below illustrate the issue or redemption and the buying or selling of Units:

### (a) Issue and buying of Units in the primary market



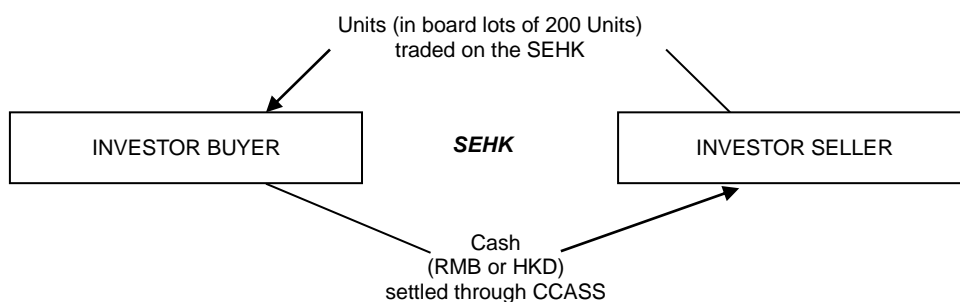
\* Clients of the Participating Dealers may agree with the Participating Dealers settlement in another currency.

### (b) Redemption and sale of Units in the primary market



\* Clients of the Participating Dealers may agree with the Participating Dealers settlement in another currency.

### (c) Buying or selling of Units in the secondary market on the SEHK



## Summary of offering methods and related fees

*After Listing*

<b><u>Method of Acquisition or Disposal of Units</u></b>	<b><u>Minimum Number of Units (or multiple thereof)</u></b>	<b><u>Channel</u></b>	<b><u>Available to</u></b>	<b><u>Consideration, Fees and Charges*</u></b>
Purchase and sale in cash through brokers on the SEHK (secondary market) in RMB or HKD	Board lot of 200 Units for HKD traded Units and 200 Units for RMB traded Units	On the SEHK	Any investor	Market price of Units on SEHK (RMB for RMB traded Units and HKD for HKD traded Units)  Brokerage fees and Duties and Charges (payable in HKD)
Cash creation and cash redemption	150,000 (Application Unit)	Through Participating Dealers only	Any person acceptable to the Participating Dealer as its client	Cash (payable in RMB only unless the Participating Dealer otherwise agrees)  Transaction Fee (payable in RMB)  Any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer in the currency determined or agreed with it)  Duties and Charges (payable in HKD)

\* Please refer to "Fees and Expenses" for further details

## **CREATIONS AND REDEMPTIONS (PRIMARY MARKET)**

### **Investment in the Sub-Fund**

There are 2 methods of making an investment in the Sub-Fund and of disposing of Units to realise an investment in the Sub-Fund.

The first method is to create or to redeem Units at Net Asset Value directly with the Sub-Fund in the primary market through a Participating Dealer, being a licensed dealer that has entered into a Participation Agreement in respect of the Sub-Fund. Although a Participating Dealer may, subject to arrangement with the Manager, elect to have Units which it creates deposited in CCASS in either the RMB counter or in the HKD counter, all creation and redemption for all Units must be in RMB. Because of the size of the capital investment (i.e. Application Unit size) required either to create or redeem Units through the Participating Dealer in the primary market, this method of investment is more suitable for institutional investors and market professionals. Participating Dealers are under no obligations to create or redeem Units for their clients and may impose terms, including charges, for handling creation or redemption orders as they determine appropriate, as described in more detail in this section.

The second method is to buy or to sell Units in the secondary market on the SEHK which is more suitable for retail investors. The secondary market price of Units may trade at a premium or discount to the Net Asset Value of the Sub-Fund.

This section of this Prospectus describes the first method of investment and should be read in conjunction with the Operating Guidelines and the Trust Deed. The section on “Exchange Listing and Trading (Secondary Market)” relates to the second method of investment.

### **Creation of Units through a Participating Dealer**

Any application for the creation of Units of the Sub-Fund must only be made through a Participating Dealer in respect of an Application Unit size or whole multiple thereof as set out in the “Summary” section. Investors cannot acquire Units directly from the Sub-Fund. Only Participating Dealers may submit Creation Applications to the Manager.

Units in the Sub-Fund are continuously offered through a Participating Dealer, who may apply for them on any Dealing Day for its own account or for your account as their client(s), in accordance with the Operating Guidelines, by submitting a Creation Application to the Registrar, with a copy to the Manager and the Trustee.

In relation to cash creation of Units, the Manager reserves the right to require the Participating Dealer to pay an additional sum for the purpose of compensating or reimbursing the Sub-Fund for the difference between:

- (a) the prices used when valuing the Securities of the Sub-Fund for the purpose of such issue of Units; and
- (b) the prices which would be used when acquiring the same Securities if they were acquired by the Sub-Fund with the amount of cash received by the Sub-Fund upon such issue of Units.

The Participating Dealer may pass on to the relevant investor such additional sum.

Each initial Participating Dealer has indicated to the Manager that it will generally accept and submit creation request(s) received from you as its client(s), subject always to (i) mutual agreement between the relevant initial Participating Dealer and you as to its fees for handling such request(s); (ii) completion to its satisfaction of client acceptance procedures and requirements; (iii) no objection from the Manager to create Units for the relevant initial Participating Dealer on your behalf (please refer to the sub-section on “Creation process” below for the examples of exceptional circumstances under which the Manager shall have the right to reject a Creation Application); and (iv) mutual

agreement between the relevant initial Participating Dealer and you as to the method of effecting such creation request(s).

In addition, a Participating Dealer reserves the right to reject, acting in good faith, any creation request received from a client under exceptional circumstances, including without limitation the following circumstances:

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (c) where acceptance of the creation request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer and/or any of its Connected Persons; or
- (d) circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the creation request.

#### *Requirements relating to creation requests by potential investors*

As of the date of this Prospectus, only cash creation is available to the Participating Dealers in respect of the Sub-Fund.

Notwithstanding the Dual Counter, any cash payable by a Participating Dealer in a cash Creation Application must be in RMB regardless of whether the Units are deposited into CCASS as RMB traded Units or as HKD traded Units. The process for creation of Units deposited under the RMB counter and HKD counter is the same.

A Participating Dealer may impose fees and charges in handling any creation request which would increase the cost of investment. You are advised to check with the Participating Dealer as to relevant fees and charges. Although the Manager has a duty to monitor the operations of the Sub-Fund closely, neither the Manager nor the Trustee is empowered to compel a Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager or the Trustee or to accept any such creation requests received from clients. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by a Participating Dealer.

A Participating Dealer may also impose timing deadlines for the submission by its clients of any creation request and require any such clients to complete the relevant client acceptance procedures and requirements (including, where necessary, providing such documentation and certifications as required by the Participating Dealer) in order to ensure that an effective Creation Application in respect of the Sub-Fund can be submitted by it to the Registrar with a copy to the Manager and the Trustee. You are advised to check with the Participating Dealer as to the relevant timing deadlines and the client acceptance procedures and requirements.

The Application Unit size for the Sub-Fund is 150,000 Units. Creation Applications submitted in respect of Units other than in Application Unit size or whole multiples thereof will not be accepted. The minimum subscription for the Sub-Fund is one Application Unit.

#### *Creation process*

A Participating Dealer may from time to time submit Creation Applications in respect of the Sub-Fund to the Registrar, with a copy to the Manager and the Trustee, following receipt of creation requests from clients or where it wishes to create Units of the Sub-Fund for its own account.

If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. The current Dealing Deadline After Listing is 10:45 a.m. (Hong Kong time) on the relevant Dealing Day, or such other time as the Manager (with the approval of Trustee) may determine on any day when the trading hours of the SEHK, the Shanghai Stock Exchange or the Shenzhen Stock Exchange are reduced.

To be effective, a Creation Application must:

- (a) be given by a Participating Dealer in accordance with the Trust Deed, the relevant Participation Agreement and the relevant Operating Guidelines;
- (b) specify the number of Units and the class of Units (where applicable) which is the subject of the Creation Application; and
- (c) include the certifications required in the Operating Guidelines (if any) in respect of creations of Units, together with such certifications and opinions of counsel (if any) as each of the Trustee and the Manager may separately consider necessary to ensure compliance with applicable Securities and other laws in relation to the creation of Units which are the subject of the Creation Application.

The Manager shall have the right to reject, acting in good faith, any Creation Application under exceptional circumstances, including without limitation the following circumstances:

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where in the opinion of the Manager, acceptance of the Creation Application would have an adverse effect on the Sub-Fund;
- (c) where in the opinion of the Manager, acceptance of the Creation Application would have a material impact on the A-Share market;
- (d) the Manager does not have adequate RQFII quota to fully satisfy the Creation Application;
- (e) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (f) where acceptance of the Creation Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons;
- (g) circumstances outside the control of the Manager make it for all practicable purposes impossible to process the Creation Application; or
- (h) an Insolvency Event occurs in respect of the relevant Participating Dealer.

In the event of such rejection, the Manager shall notify the relevant Participating Dealer and the Trustee of its decision to reject such Creation Application in accordance with the Operating Guidelines.

The Manager's right to reject a Creation Application is separate and in addition to a Participating Dealer's right to reject, acting in good faith, any creation request received from a client of the Participating Dealer under exceptional circumstances. Notwithstanding a Participating Dealer has accepted creation requests from its clients and in that connection submitted an effective Creation

Application, the Manager may exercise its rights to reject such Creation Application in the circumstances described herein.

Where for any reason there is a limit to the number of Units which can be created, priority will be given to Participating Dealers and the relevant Creation Applications as set out in the Operating Guidelines.

Where the Manager accepts a Creation Application from a Participating Dealer, it shall instruct the Trustee to effect (i) for the account of the Sub-Fund, the creation of Units in Application Unit size in exchange for a transfer of cash; and (ii) the issue of Units to the Participating Dealer, both in accordance with the Operating Guidelines and the Trust Deed.

#### *Issue of Units*

Units will be issued at the Issue Price prevailing on the relevant Dealing Day, provided that the Trustee may add to such Issue Price such sum (if any) as represents an appropriate provision for Duties and Charges. Please refer to the section on "Issue Price and Redemption Value of Units" for the calculation of the Issue Price.

No fractions of a Unit shall be created or issued by the Trustee.

The creation and issue of Units pursuant to a Creation Application shall be effected on the Dealing Day on which the Creation Application is received (or deemed received) and accepted in accordance with the Operating Guidelines but (i) for valuation purposes only, Units shall be deemed created and issued after the Valuation Point on the Dealing Day on which the relevant Creation Application was received or deemed received, and (ii) the register will be updated on Settlement Day or the Dealing Day or immediately following Settlement Day or, if the settlement period is extended, the relevant Settlement Day. If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. An Extension Fee may be payable in relation to such an extension. See the section on "Fees and Expenses" for further details.

The Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the register if at any time the Trustee is of the opinion that the provisions as set out in the Trust Deed, the relevant Operating Guidelines or the relevant Participation Agreement, in regard to the issue of Units, are being infringed.

#### *Fees relating to Creation Applications*

The Service Agent, the Registrar and/or the Trustee may charge a Transaction Fee in respect of Creation Applications and may on any day vary the rate of the Transaction Fee they charge (but not as between different Participating Dealers in respect of the Sub-Fund). The Transaction Fee shall be paid by or on behalf of the Participating Dealer applying for such Units. See the section on "Fees and Expenses" for further details.

Any commission, remuneration or other sum payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price of such Unit and shall not be paid from the assets of the Sub-Fund.

#### **Cancellation of Creation Applications**

A Creation Application once given cannot be revoked or withdrawn without the consent of the Manager.

The Trustee, after consultation with the Manager, may cancel a creation order in respect of any Units deemed created pursuant to a Creation Application if it has not received the full amount of the



cash (including Transaction Fee, Duties and Charges) relating to the Creation Application by the relevant time on the Dealing Day, provided that the Manager may at its discretion extend the settlement period and such extension to be on such terms and conditions (including as to the payment of any fees to the Manager or Extension Fee to the Trustee or their respective Connected Persons or otherwise) as the Manager may determine and in accordance with the provisions of the Operating Guidelines.

In addition to the preceding circumstances, the Manager may also cancel any creation order of any Units if it determines by such time as it specifies in the Operating Guidelines that it is unable to invest the cash proceeds of any Creation Application.

Upon the cancellation of any creation order of any Units deemed created pursuant to a Creation Application as provided for above, any cash received by or on behalf of the Trustee in connection with a Creation Application shall be redelivered to the Participating Dealer (without interest) as soon as practicable and the relevant Units shall be deemed for all purposes never to have been created and the Participating Dealer shall have no right or claim against the Manager, the Trustee and/or the Service Agent in respect of such cancellation provided that:

- (a) the Trustee may charge the relevant Participating Dealer for the account of the Registrar an application cancellation fee (see the section on "Fees and Expenses" for further details);
- (b) the Manager may at its discretion require the Participating Dealer to pay to the Trustee, for the account of the Sub-Fund, in respect of each Unit so cancelled Cancellation Compensation, being the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Value which would have applied in relation to each such Unit if the Participating Dealer had, on the date on which such Units are cancelled, made a Redemption Application, together with charges, expenses and losses incurred by the Sub-Fund as a result of such cancellation;
- (c) the Transaction Fee in respect of such Creation Application shall remain due and payable (notwithstanding that the Creation Application shall be deemed to never have been made) and once paid shall be retained by and for the benefit of the Trustee, the Registrar and/or the Service Agent (see the section on "Fees and Expenses" for further details); and
- (d) no previous valuations of the Trust Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

### **Redemption of Units through a Participating Dealer**

Any application for the redemption of Units of the Sub-Fund must only be made through a Participating Dealer in respect of an Application Unit size or whole multiples thereof. Investors cannot redeem Units directly from the Sub-Fund. Only Participating Dealers may submit Redemption Applications to the Registrar (with a copy to the Manager and the Trustee).

A Participating Dealer may redeem Units on any Dealing Day for its own account or for the account of its clients in accordance with the Operating Guidelines, by submitting a Redemption Application to the Registrar (with a copy to the Manager and the Trustee).

In relation to cash redemption of Units as described above, the Manager reserves the right to require the Participating Dealer to pay an additional sum for the purpose of compensating or reimbursing the Sub-Fund for the difference between:

- (a) the prices used when valuing the Securities of the Sub-Fund for the purpose of such redemption of Units; and
- (b) the prices which would be used when selling the same Securities if they were sold by the Sub-Fund in order to realize the amount of cash required to be paid out of the Sub-Fund upon such redemption of Units.

The Participating Dealer may pass on to the relevant investor such additional sum.

Each initial Participating Dealer has indicated to the Manager that it will generally accept and submit redemption request(s) received from you as its client(s), subject always to (i) mutual agreement between the relevant initial Participating Dealer and you as to its fees for handling such request(s); (ii) completion to its satisfaction of client acceptance procedures and requirements; (iii) no objection from the Manager to redeem Units for the relevant initial Participating Dealer on your behalf (please refer to the sub-section on "Redemption process" below for the examples of exceptional circumstances under which the Manager shall have the right to reject a Redemption Application); and (iv) mutual agreement between the relevant initial Participating Dealer and you as to the method of effecting such redemption request(s).

In addition, a Participating Dealer reserves the right to reject, acting in good faith, any redemption request received from a client under exceptional circumstances, including without limitation the following circumstances:

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (c) where acceptance of the redemption request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer and/or any of its Connected Persons; or
- (d) circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the redemption request.

#### *Requirements relating to redemption requests by potential investors*

As of the date of this Prospectus, only cash redemption is available to the Participating Dealers in respect of the Sub-Fund.

Notwithstanding the Dual Counter, any cash proceeds received by a Participating Dealer in a cash Redemption Application shall be paid only in RMB. Both RMB traded Units and HKD traded Units may be redeemed by way of a Redemption Application (through a Participating Dealer). Where a Participating Dealer wishes to redeem HKD traded Units the redemption process is the same as for RMB traded Units.

A Participating Dealer may impose fees and charges in handling any redemption request which would increase the cost of investment and/or reduce the redemption proceeds. You are advised to check with the Participating Dealer as to relevant fees and charges. Although the Manager has a duty to monitor the operations of the Sub-Fund closely, neither the Manager nor the Trustee is empowered to compel a Participating Dealer to disclose its fees agreed with specific clients or other proprietary or confidential information to the Manager or the Trustee or to accept any such redemption requests received from clients. In addition, neither the Trustee nor the Manager can ensure effective arbitrage by a Participating Dealer.

A Participating Dealer may also impose timing deadlines for the submission by its clients of any redemption request and require any such clients to complete the relevant client acceptance procedures and requirements (including, where necessary, providing such documentation and certifications as required by the Participating Dealer) in order to ensure that an effective Redemption Application in respect of the Sub-Fund can be submitted by it to the Registrar (with a copy to the Manager and the Trustee). You are advised to check with the Participating Dealer as to the relevant timing deadlines and the client acceptance procedures and requirements.

### *Redemption process*

A Participating Dealer may from time to time submit Redemption Applications in respect of the Sub-Fund to the Manager, following receipt of redemption requests from clients or where it wishes to redeem Units of the Sub-Fund for its own account.

If a Redemption Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Redemption Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Redemption Application. The current Dealing Deadline After Listing is 10:45 a.m. (Hong Kong time) on the relevant Dealing Day, or such other time as the Manager (with the approval of Trustee) may determine on any day when the trading hours of the SEHK, the Shanghai Stock Exchange or the Shenzhen Stock Exchange are reduced.

To be effective, a Redemption Application must:

- (a) be given by a Participating Dealer in accordance with the Trust Deed, the relevant Participation Agreement and the relevant Operating Guidelines;
- (b) specify the number of Units and the class of Units (where applicable) which is the subject of the Redemption Application; and
- (c) include the certifications required in the Operating Guidelines (if any) in respect of redemptions of Units, together with such certifications and opinions of counsel (if any) as each of the Trustee and the Manager may separately consider necessary to ensure compliance with applicable securities and other laws in relation to the redemption of Units which are the subject of the Redemption Application.

The Manager shall have the right to reject, acting in good faith, any Redemption Application under exceptional circumstances, including without limitation the following circumstances:

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where in the opinion of the Manager, acceptance of the Redemption Application would have an adverse effect on the Sub-Fund;
- (c) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (d) where acceptance of the Redemption Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons; or
- (e) circumstances outside the control of the Manager make it for all practicable purposes impossible to process the Redemption Application.

In the event of such rejection, the Manager shall notify the relevant Participating Dealer and the Trustee of its decision to reject such Redemption Application in accordance with the Operating Guidelines.

The Manager's right to reject a Redemption Application is separate and in addition to a Participating Dealer's right to reject, acting in good faith, any redemption request received from a client under exceptional circumstances. Notwithstanding a Participating Dealer has accepted redemption requests from clients and in that connection submitted an effective Redemption Application, the

Manager may exercise its rights to reject such Redemption Application in the circumstances described herein.

Where the Manager accepts a Redemption Application from a Participating Dealer, it shall (i) effect the redemption and cancellation of the relevant Units; and (ii) require the Trustee to transfer to the Participating Dealer cash in accordance with the Operating Guidelines and the Trust Deed.

The Participating Dealer will then transfer the cash to the relevant client if the Redemption Application was submitted by the Participating Dealer for the account of its client.

#### *Redemption of Units*

Any accepted Redemption Application will be effected on the Settlement Day provided that a Redemption Application duly signed by a Participating Dealer (to the satisfaction of the Manager and the Trustee) has been received and provided further that the Trustee shall have received (unless otherwise provided in the Operating Guidelines) the original (and not a faxed copy) of the certificates (if any) representing the Units to be cancelled (or an indemnity in terms acceptable to the Trustee) and the full amount of any amount payable by the Participating Dealer including the Transaction Fee and any other Duties and Charges have been either deducted or otherwise paid in full.

For valuation purposes only, Units shall be deemed to have been redeemed and cancelled after the Valuation Point on the Dealing Day on which the Redemption Application was received or deemed received. The name of the Unitholder of such Units shall be removed from the Register in respect of those Units redeemed and cancelled on the relevant Settlement Day.

The Redemption Value of Units tendered for redemption shall be the Net Asset Value per Unit of the Sub-Fund rounded to the nearest four decimal places (0.00005 or above being rounded up). The benefit of any rounding adjustments will be retained by the Sub-Fund. For the purpose of valuation, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the Redemption Application is treated as having been received.

The interval between the receipt of a properly documented Redemption Application and payment of redemption proceeds (which shall be in RMB only) may not exceed one calendar month provided that there is no delay in submitting all duly completed redemption documentation and the determination of the Net Asset Value or dealing in Units is not suspended.

The Manager may at its discretion extend the settlement period upon receipt of the extended settlement request in respect of the Redemption Application on such terms and conditions (including as to the payment of any fees to the Manager or Extension Fee to the Trustee or their respective Connected Persons or otherwise) as the Manager may in its discretion determine, in accordance with the Operating Guidelines.

#### *Fees relating to Redemption Applications*

The Service Agent, the Registrar and/or the Trustee may charge a Transaction Fee in respect of Redemption Applications and may on any day vary the rate of the Transaction Fee they charge (but not as between different Participating Dealers in respect of the Sub-Fund). The Transaction Fee shall be paid by or on behalf of the Participating Dealer submitting the Redemption Application(s) (and may be set off and deducted against any amount due to the Participating Dealer in respect of such Redemption Application(s)) for the benefit of the Trustee, the Registrar and/or the Service Agent. See the section on "Fees and Expenses" for further details.

The Trustee may deduct from the redemption proceeds such sum (if any) as the Trustee may consider represents an appropriate provision for the Transaction Fee and/or other Duties and Charges.

## **Cancellation of Redemption Applications**

A Redemption Application once given cannot be revoked or withdrawn without the consent of the Manager.

No cash amount shall be paid in respect of any Redemption Application unless Units, which are the subject of the Redemption Application, have been delivered to the Trustee free and clear of any Encumbrance for redemption by such time on the Settlement Day or other dealing set forth in the Trust Deed and/or Operational Guidelines as the Trustee and the Manager shall for the time being prescribe for Redemption Applications generally.

In the event that Units, which are the subject of a Redemption Application, are not delivered to the Trustee for redemption in accordance with the foregoing or are not free and clear of any Encumbrance:

- (a) the Trustee may charge the relevant Participating Dealer for the account of the Registrar an application cancellation fee (see the section on "Fees and Expenses" for further details);
- (b) the Manager may at its discretion require the Participating Dealer to pay to the Trustee, for the account of the Sub-Fund, in respect of each Unit so cancelled Cancellation Compensation, being the amount (if any) by which the Redemption Value of each such Unit is less than the Issue Price which would have applied in relation to each such Unit if the Participating Dealer had, on the actual date when the Manager is able to repurchase any replacement Securities made a Creation Application in accordance with the provisions of the Trust Deed plus such other amount as the Manager reasonably determines as representing any charges, expenses and losses incurred by the Sub-Fund as a result of such cancellation;
- (c) the Transaction Fee in respect of such Redemption Application shall remain due and payable (notwithstanding that the Redemption Application shall be deemed to never have been made) and once paid, shall be retained by and for the benefit of the Trustee, the Registrar and/or the Service Agent (see the section on "Fees and Expenses" for further details); and
- (d) no previous valuations of the Trust Fund shall be re-opened or invalidated as a result of an unsuccessful Redemption Application.

## **Deferred redemption**

In the event that redemption requests are received for the redemption of Units representing in aggregate more than 10% (or such higher percentage as the Manager may determine in respect of the Sub-Fund and as permitted by the SFC) of the total number of Units in the Sub-Fund then in issue, the Manager may direct the Trustee to reduce the requests rateably and pro rata amongst all Unitholders seeking to redeem Units 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 the Sub-Fund) of Units in the Sub-Fund then in issue. Units 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 Sub-Fund themselves exceed 10% (or such higher percentage as the Manager may determine in respect of that Sub-Fund) of the Units in the Sub-Fund then in issue) in priority to any other Units in the Sub-Fund for which redemption requests have been received. Units will be redeemed at the Redemption Value prevailing on the Dealing Day on which they are redeemed.

## **Suspension of creations and redemptions**

The Manager may, at its discretion, after consultation with the Trustee (and where practicable, after consultation with Participating Dealers) having regard to the best interests of the Unitholders, suspend the creation or issue of Units of the Sub-Fund, suspend the redemption of Units of the Sub-Fund and/or (subject to the approval of the SFC where payment of redemption monies exceeds

one calendar month) delay the payment of any monies in respect of any Creation Application or Redemption Application in the following circumstances:

- (a) during any period when trading on the SEHK or any other Recognised Stock Exchange or Recognised Futures Exchange is restricted or suspended;
- (b) during any period when a market on which a Security (that is a component of the Index) has its primary listing, or the official clearing and settlement depository (if any) of such market, is closed;
- (c) during any period when dealing on a market on which a Security (that is a component of the Index) has its primary listing is restricted or suspended;
- (d) during any period when, in the opinion of the Manager, settlement or clearing of Securities in the official clearing and settlement depository (if any) of such market is disrupted;
- (e) during the existence of any state of affairs as a result of which delivery or purchase of Securities, as appropriate or disposal of investments for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders of the Sub-Fund;
- (f) during any period when the Index is not compiled or published;
- (g) during any breakdown in any of the means normally employed in determining the Net Asset Value of the Sub-Fund or when for any other reason the value of any Securities 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;
- (h) during any period when the determination of the Net Asset Value of the Sub-Fund is suspended or if any circumstance specified in the section on "Suspension of determination of Net Asset Value" below arises; or
- (i) during any period when the business operations of the Manager in respect 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.

The Manager will, after consultation with the Trustee, having regard to the best interests of the Unitholders, suspend the right to subscribe for Units of the Sub-Fund if, or if as a result of the investment of the proceeds of issue of such Units in accordance with its investment objective, the Trust collectively holds or would hold in aggregate more than 10% of the ordinary shares issued by any single issuer or such other percentage permitted under Schedule 1. In addition, where the sub-funds under the Trust hold in aggregate more than the limit of 10% of the ordinary shares issued by any single issuer and the SFC has not agreed to waive this prohibition under the Code, the Manager will make it a priority objective to take all other necessary steps within a reasonable period to remedy the situation, taking due account of the interests of the Unitholders.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at <http://etf.chinaamc.com.hk/HKen/CSI300> (the contents of which has not been reviewed by the SFC) or such other channels as the SFC considers appropriate.

The Manager shall consider any Redemption Application or any Creation Application received during the period of suspension (that has not been otherwise withdrawn) as having been received immediately following the termination of the suspension. The period for settlement of any redemption will be extended by a period equal to the length of the period of suspension.

A Participating Dealer may, at any time after a suspension has been declared and before termination of such suspension, withdraw any Creation Application or Redemption Application by notice in writing to the Manager and the Manager shall promptly notify and request the Trustee to return to the

Participating Dealer any cash received by it in respect of the Creation Application (without interest) as soon as practicable.

A suspension shall remain in force until the earlier of (a) the Manager declaring the suspension is at an end; and (b) the first Dealing Day on which (i) the condition giving rise to the suspension shall have ceased to exist; and (ii) no other condition under which suspension is authorised exists.

### **Evidence of unitholding**

Units will be deposited, cleared and settled by the CCASS. Units are held in registered entry form only, which means that no Unit certificates are issued. HKSCC Nominees Limited is the registered owner (i.e. the sole holder of record) of all outstanding Units deposited with the CCASS and is holding such Units for the participants in accordance with the General Rules of CCASS. Furthermore, the Trustee and the Manager acknowledge that pursuant to the General Rules of CCASS neither HKSCC Nominees Limited nor HKSCC has any proprietary interest in the Units. Investors owning Units in CCASS are beneficial owners as shown on the records of the participating brokers or the relevant Participating Dealer(s) or PD Agent(s) (as the case may be) who are CCASS participants.

### **Restrictions on Unitholders**

The Manager has power to impose such restrictions as it may think necessary for the purpose of ensuring that no Units are acquired or held which would result in such holding being:

- (a) a breach of the law or requirements of any country or governmental authority or any stock exchange on which the Units are listed in circumstances which, in the Manager's opinion, might result in the Trust or the Sub-Fund suffering any adverse effect which the Trust or the Sub-Fund might not otherwise have suffered; or
- (b) in the circumstances which, in the Manager's opinion, may result in the Trust or the Sub-Fund incurring any tax liability or suffering any other pecuniary disadvantage which the Trust or the Sub-Fund might not otherwise have incurred or suffered.

Upon notice that any Units are so held, the Manager may require such Unitholders to redeem or transfer such Units in accordance with the provisions of the Trust Deed. A person who becomes aware that he is holding or owning Units in breach of any of the above restrictions is required either to redeem his Units in accordance with the Trust Deed or to transfer his Units to a person whose holding would be permissible under this Prospectus and the Trust Deed in a manner that would result in such Unitholder no longer being in breach of the restrictions above.

### **Transfer of Units**

The Trust Deed provides that a Unitholder may transfer Units with the consent of the Manager. As all Units will be held in CCASS, the Manager's consent is deemed given where the Unitholder is transferring his interest in Units within CCASS. A Unitholder is entitled to transfer Units held by him by using the standard transfer form issued by SEHK or by an instrument in writing in such other form (and if the transferor or the transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution) as the Trustee may from time to time approve. The transferor will be deemed to remain the Unitholder of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of the Units being transferred. If and to the extent that all Units are deposited, cleared and settled in CCASS, HKSCC Nominees Limited will be the sole Unitholder, holding such Units for the persons admitted by HKSCC as a participant of CCASS and to whose account any Units are for the time being allocated in accordance with the General Rules of CCASS.

## **EXCHANGE LISTING AND TRADING (SECONDARY MARKET)**

### **General**

Dealings on the SEHK in RMB traded Units began on 17 July 2012. Units are neither listed nor dealt on any other stock exchange and no application for such listing or permission to deal is being sought as at the date of this Prospectus. Application may be made in the future for a listing of Units on one or more other stock exchanges.

Units trade on the SEHK in board lots of 200 Units for HKD traded Units and 200 Units for RMB traded Units.

The purpose of the listing of the Units on the SEHK is to enable investors to buy and sell Units on the secondary market, normally via a broker or dealer in smaller quantities than would be possible if they were to subscribe and/or redeem Units in the primary market.

The market price of a Unit listed or traded on the SEHK may not reflect the Net Asset Value per Unit. Any transactions in the Units on the SEHK will be subject to the customary brokerage commissions and/or transfer taxes associated with the trading and settlement through the SEHK. There can be no guarantee that once the Units are listed on the SEHK they will remain listed.

The Manager will use its best endeavours to put in place arrangements so that at least one Market Maker will maintain a market for Units traded in RMB and at least one Market Maker will maintain a market for Units traded in HKD (although the Market Maker for both counters may be the same entity). Broadly, the obligations of a Market Maker will include quoting bid and offer prices on the SEHK with the intention of providing liquidity. Given the nature of the Market Maker's role, the Manager will make available to a Market Maker the portfolio composition information made available to a Participating Dealer.

Units may be purchased from and sold through the Market Makers. However, there is no guarantee or assurance as to the price at which a market will be made. In maintaining a market for Units, the Market Makers may make or lose money based on the differences between the prices at which they buy and sell Units, which is to a certain extent dependent on the difference between the purchase and sale prices of the underlying Securities comprised within the Index. Market Makers may retain any profits made by them for their own benefit and they are not liable to account to the Sub-Fund in respect of their profits.

If you wish to buy or sell Units on the secondary market, you should contact your brokers.

The Units traded in RMB have been accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS. Subject to compliance with the stock admission requirements of HKSCC the HKD traded Units will be accepted as eligible securities by HKSCC for deposit, clearing and settlement in CCASS with effect from the date of commencement of dealings in the HKD traded Units on the SEHK or on any other date HKSCC chooses. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS Settlement Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

If trading of the Units on the SEHK is suspended or trading generally on the SEHK is suspended, then there will be no secondary market dealing for the Units.

### **Renminbi Equity Trading Support Facility**

The Renminbi Equity Trading Support Facility (the "TSF") was launched on 24 October 2011 by the Hong Kong Exchanges and Clearing Limited ("HKEx") to provide a facility to enable investors who wish to buy RMB-traded shares (RMB shares) in the secondary market with Hong Kong dollars if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. With effect from 6 August 2012, the coverage of TSF was extended and the Sub-Fund is eligible for the TSF. As such the TSF is currently available to investors who wish to invest in the Sub-Fund by purchasing Units trading in RMB on the SEHK. Investors should consult their financial advisers if



they have any questions concerning the TSF. More information with regard to the TSF is available on HKEx's website [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/TSF/TSF.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/TSF/TSF.htm).

## **Dual Counter**

The Manager has arranged for the Units to be available for trading on the secondary market on the SEHK under a Dual Counter arrangement. Units are denominated in RMB. Despite the Dual Counter arrangement the creation of new Units and redemption of Units in the primary market are settled in RMB only. The Sub-Fund offers two trading counters on the SEHK (i.e. RMB counter and HKD counter) to investors for secondary trading purposes. Units traded in RMB counter will be settled in RMB and Units traded in HKD counter will be settled in HKD. Apart from settlement in different currencies, the trading prices of Units in the two counters may be different as the RMB counter and HKD counter are two distinct and separate markets.

Units traded on both counters are of the same class and all unit holders of both counters are treated equally. The two counters will have different stock codes, different stock short names and different ISIN numbers as follows: RMB counter and traded Units have a SEHK stock code 83188 and a short name "CAM CSI300-R" whilst the HKD counter and traded Units have a SEHK stock code 03188 and a short name "CAM CSI300". The ISIN for RMB counter and traded Units is HK0000110269 and the ISIN for HKD counter and traded Units is HK0000123577.

Normally, investors can buy and sell Units traded in the same counter or alternatively buy in one counter and sell in the other counter provided their brokers provide both HKD and RMB trading services at the same time and offer inter-counter transfer services to support Dual Counter trading. Inter-counter buy and sell is permissible even if the trades take place within the same trading day. However, investors should note that the trading price of Units traded in the RMB counter and that of HKD counter may be different and may not always maintain a close relationship depending on factors such as market demand and supply and liquidity in each counter.

More information with regard to the Dual Counter is available in the frequently asked questions in respect of the Dual Counter published on HKEx's website <http://www.hkex.com.hk/eng/prod/secprod/etf/dc.htm>.

Investors should consult their brokers if they have any questions concerning fees, timing, procedures and the operation of the Dual Counter, including inter-counter transfers. Investors' attention is also drawn to the risk factor below entitled "Dual Counter risks".

## **DETERMINATION OF NET ASSET VALUE**

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

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

Set out below is a summary of how various Securities held by the Sub-Fund are valued:

- (a) Securities that are quoted, listed, traded or dealt in on any Market shall unless the Manager (in consultation with the Trustee) determines that some other method is more appropriate, be valued by reference to the price appearing to the Manager to be the official closing price, or if unavailable, the last traded price on the Market as the Manager may consider in the circumstances to provide fair criterion, provided that (i) if a Security is quoted or listed on more than one Market, the Manager shall adopt the price quoted on the Market which in its opinion provides the principal market for such Security; (ii) if prices on that Market are not available at the relevant time, the value of the Securities shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager; (iii) interest accrued on any interest-bearing Securities shall be taken into account, unless such interest is included in the quoted or listed price; and (iv) the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine, notwithstanding that the prices so used are not the official closing prices or last traded prices as the case may be;
- (b) the value of each interest in any unlisted mutual fund corporation or unit trust shall be the latest available net asset value per share or unit in such mutual fund corporation or unit trust or if not available or appropriate, the last available bid or offer price for such unit, share or other interest;
- (c) except as provided for in paragraph (b), the value of any investment which is not listed, quoted or ordinarily dealt in on a Market shall be the initial value thereof equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager may in consultation with the Trustee cause a revaluation to be made by a professional person approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);
- (d) 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 Trustee, any adjustment should be made to reflect the value thereof; and
- (e) notwithstanding the foregoing, the Manager in consultation with the Trustee may adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, the Manager considers that such adjustment is required to fairly reflect the value of the investment.

The Trustee will perform any currency conversion at rates as may be agreed between the Trustee and the Manager from time to time.

The above is a summary of the key provisions of the Trust Deed with regard to how the various assets of the Sub-Fund are valued.

### **Suspension of determination of Net Asset Value**

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

- (a) there exists any state of affairs prohibiting the normal disposal and/or purchase of the

investments of the Sub-Fund;

- (b) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any Securities held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interest of Unitholders of Units of the 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 any of the means normally employed in determining the Net Asset Value of the Sub-Fund or the Net Asset Value per Unit of the relevant class or when for any other reason the value of any Securities 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, the Securities of the Sub-Fund or the subscription or redemption of Units of the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange; or
- (f) the business operations of the Manager, the Trustee or the Registrar 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.

Any suspension shall take effect upon its declaration and thereafter there shall be no determination of the Net Asset Value of the Sub-Fund and the Manager shall be under no obligation to rebalance the Sub-Fund 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.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at <http://etf.chinaamc.com.hk/HKen/CSI300> (the contents of which has not been reviewed by the SFC) or in such other publications as the Manager decides.

No Units will be issued or redeemed during any period of suspension of the determination of the Net Asset Value.

### **Issue Price and Redemption Value of Units**

The Issue Price of Units created and issued by a Creation Application, will be the prevailing Net Asset Value of the Sub-Fund in RMB as at the relevant Valuation Point divided by the total number of Units in issue rounded to the nearest four decimal places (0.00005 or above being rounded up).

The Redemption Value on a Dealing Day shall be the prevailing Net Asset Value of the Sub-Fund in RMB as at the relevant Valuation Point divided by the total number of Units in issue rounded to the nearest four decimal places (0.00005 or above being rounded up).

The benefit of any rounding adjustments will be retained by the Sub-Fund.

The latest Net Asset Value of the Units will be available on the Manager's website at <http://etf.chinaamc.com.hk/HKen/CSI300> (the contents of which has not been reviewed by the SFC) or published in such other publications as the Manager decides.

Neither the Issue Price nor the Redemption Value takes into account Duties and Charges, Transaction Fees or fees payable by a Participating Dealer.

## FEES AND EXPENSES

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

<b>(a) Fees and expenses payable by Participating Dealers on creations and redemptions (as applicable) of Units</b>	<b>Amount</b>
Transaction Fee and Service Agent's Fee	RMB12,000 <sup>1</sup> per Application and HKD1,000 <sup>1</sup> per book-entry deposit and withdrawal transaction
	See Note <sup>2</sup>
Application cancellation fee	RMB8,000 <sup>3</sup> per Application
Extension Fee	RMB8,000 <sup>4</sup> per Application
Stamp duty	Nil
All other Duties and Charges incurred by the Trustee or the Manager in connection with the creation or redemption	As applicable
<b>(b) Fees and expenses payable by investors</b>	<b>Amount</b>
<b><i>(i) Fees payable by clients of the Participating Dealers in respect of creations and redemptions (as applicable) via the Participating Dealer</i></b>	
Fees and charges imposed by the Participating Dealer <sup>5</sup>	Such amounts as determined by the relevant Participating Dealer
<b><i>(ii) Fees payable by all investors in respect of dealings in the Units on SEHK</i></b>	
Brokerage	Market rates
Transaction levy	0.0027% <sup>6</sup>

<sup>1</sup> RMB12,000 is payable to the Trustee and HKD1,000 is payable to the Service Agent.

<sup>2</sup> The Transaction Fee of RMB12,000 is payable by a Participating Dealer to the Trustee for the benefit of the Trustee and/or Registrar. The Service Agent's fee of HKD1,000 is payable by a Participating Dealer to the Service Agent. The Registrar will charge a fee for each Creation Application and Redemption Application and the Service Agent will charge a fee for each book-entry deposit and withdrawal transaction. Both fees will be met out of the Transaction Fee. A Participating Dealer may pass on to the relevant investor such Transaction Fee.

<sup>3</sup> An application cancellation fee is payable to the Trustee for the account of the Registrar in respect of either a withdrawn or failed Creation Application or Redemption Application.

<sup>4</sup> An Extension Fee is payable to the Trustee on each occasion the Manager, upon a Participating Dealer's request, grants the Participating Dealer an extended settlement in respect of a Creation Application or Redemption Application.

<sup>5</sup> The Participating Dealer may increase or waive the level of its fees in its discretion. Information regarding these fees and charges is available upon request to the relevant Participating Dealer.

<sup>6</sup> Transaction levy of 0.0027% of the trading price of the Units, payable by the buyer and the seller.

SEHK trading fee	0.005% <sup>7</sup>
Stamp duty	Nil
Inter-counter transfer	HKD5 <sup>8</sup>

**(c) Fees and expenses payable by the Sub-Fund** (See further disclosure below)

No money should be paid to any intermediary in Hong Kong which is not licensed or registered to carry on Type 1 regulated activity under Part V of the SFO.

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

#### *Manager's fee*

The Manager is entitled to receive a management fee of up to 1.00% per year of the Net Asset Value of the Sub-Fund. The current management fee is 0.70% per year of the Net Asset Value of the Sub-Fund and is accrued daily and calculated as at each Dealing Day and payable monthly in arrears. This fee is payable out of the Trust Fund.

The Manager may pay a distribution fee to any distributor or sub-distributors of the Trust out of the management fees it receives from the Trust. A distributor may re-allocate an amount of the distribution fee to the sub-distributors.

#### *Trustee's fee*

The Trustee is entitled to receive out of the assets of the Sub-Fund a trustee fee of up to 1.00% per year of the Net Asset Value of the Sub-Fund. The current Trustee's fee is payable monthly in arrears, accrued daily and calculated as at each Dealing Day at the following percentages per year of the Net Asset Value of the Sub-Fund: 0.10% if the Net Asset Value equals or is less than the RMB equivalent of US\$200 million, 0.09% if the Net Asset Value exceeds the RMB equivalent of US\$200 million up to and including US\$600 million and 0.07% if the Net Asset Value exceeds the RMB equivalent of US\$600 million, subject to a minimum fixed fee of US\$4,000 per month. The Trustee will bear the fees of the Custodian, the PRC Custodian and the Administrator. The trustee fee may be increased by agreement with the Manager up to the maximum on giving one month's notice to the Unitholders. The Trustee is also entitled to an inception fee of US\$10,000 for the establishment of the Sub-Fund.

The Trustee shall also be entitled to be reimbursed out of the assets of the Sub-Fund all out-of-pocket expenses incurred.

#### *Registrar's fee*

The Registrar received an initial placing fee of HKD180,000 and an ongoing registry service fee of HKD96,000 per annum in respect of the Sub-Fund. These fees are payable out of the assets of the Sub-Fund.

The Registrar shall also be entitled to be reimbursed out of the assets of the Sub-Fund all out-of-pocket expenses incurred.

#### *Service Agent's fee*

The Service Agent is entitled to receive a monthly reconciliation fee of HKD5,000 from the Manager. The Manager shall pass on to the Sub-Fund such reconciliation fee.

<sup>7</sup> Trading fee of 0.005% of the trading price of the Units, payable by the buyer and the seller.

<sup>8</sup> HKSCC will charge each CCASS participant a fee of HKD5 per instruction for effecting an inter-counter transfer from one counter to another counter. Investors should check with their brokers regarding any additional fees.

For any period less than a month, the reconciliation fee is on a pro-rata basis and accrues on a daily basis. The Trustee, on behalf of the Trust, will pay all other expenses chargeable by the Service Agent in connection with the Service Agent's role.

#### *Promotional expenses*

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

#### *Other expenses*

The Sub-Fund will bear all operating costs relating to the administration of the Sub-Fund including but not limited to stamp and other duties, governmental charges, brokerages, commissions, exchange costs and commissions, bank charges and other costs and expenses payable in respect of the acquisition, holding and realisation of any investment or any monies, deposit or loan, charges and expenses of its legal counsel, auditors and other professionals, index licensing fees, the costs in connection with maintaining a listing of the Units on the SEHK and maintaining the Trust's and the Sub-Fund's authorisation under the SFO, costs incurred in the preparation, printing and updating of any offering documents and the costs incurred in the preparation of supplemental deeds, any disbursements or out-of-pocket expenses properly incurred on behalf of the Sub-Fund by the Trustee, the Manager or the Registrar or any of its service providers, the expenses incurred in convening meetings of Unitholders, printing and distributing annual and half-yearly financial reports and other circulars relating to the Sub-Fund and the expenses of publishing Unit prices.

#### **Establishment costs**

The cost of establishing the Trust and the Sub-Fund including the preparation of this Prospectus, inception fees, the costs of seeking and obtaining the listing and authorisation by the SFC and all initial legal and printing costs (which are estimated to be RMB1,900,000) will be borne by the Sub-Fund (unless otherwise determined by the Manager) and amortised over the first 5 financial years of the Sub-Fund or such other period as determined by the Manager after consulting the Auditor.

#### **Increase in fees**

The current fees payable to the Manager and the Trustee as described above may be increased on one month's notice to Unitholders (or such shorter period as approved by the SFC), subject to the maximum rates set out in the Trust Deed.

## RISK FACTORS

*An investment in the Sub-Fund carries various risks. Each of these may affect the Net Asset Value, yield, total return and trading price of the Units. There can be no assurance that the investment objective of the Sub-Fund will be achieved. You should carefully evaluate the merits and risks of an investment in the Sub-Fund in the context of your overall financial circumstances, knowledge and experience as an investor. The risk factors set forth below are the risks which are believed by the Manager and its directors to be relevant and presently applicable to the Sub-Fund.*

### **Risks associated with the RQFII regime**

#### *RQFII systems risk*

The current RQFII Regulations include rules on investment restrictions applicable to the Sub-Fund. Transaction sizes for RQFIIs are relatively large (with the corresponding heightened risk of exposure to decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities).

Onshore PRC securities are registered in the joint names of the Manager (as the RQFII holder) and the Sub-Fund in accordance with the relevant rules and regulations, and maintained in electronic form via a securities account with the CSDCC. The account is required to bear the name of “China Asset Management (Hong Kong) Limited” as this is the name under which the RQFII is approved by the relevant regulator. The RQFII selects a PRC broker (the “PRC Broker”) to act on its behalf in each of the two onshore PRC securities markets as well as the PRC Custodian to maintain its assets in custody in accordance with the terms of the PRC RQFII Agreement.

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

The regulations which regulate investments by RQFIIs in the PRC and the repatriation of capital from RQFII investments are relatively new. The application and interpretation of such investment regulations are therefore relatively untested and there is no certainty as to how they will be applied as the PRC authorities and regulators have been given wide discretion in such investment regulations and there is no precedent or certainty as to how such discretion may be exercised now or in the future.

#### *PRC Custodian and PRC Broker risk*

Onshore PRC assets will be maintained by the PRC Custodian in electronic form via a securities account with the CSDCC and a cash account with the PRC Custodian.

The RQFII also selects the PRC Broker to execute transactions for the Sub-Fund in the PRC markets. The Manager can only appoint one broker in the PRC for each market (the Shenzhen Stock Exchange and the Shanghai Stock Exchange) in the PRC. As such the Sub-Fund will rely on only one broker for each market (which may be the same broker). Should, for any reason, the Manager be unable to use the relevant broker in the PRC, the operation of the Sub-Fund would be adversely affected and may cause Units to trade at a premium or discount to the Sub-Fund’s Net Asset Value or unable to track the index. The Sub-Fund may also incur losses due to the acts or omissions of either the PRC Broker(s) or the PRC Custodian in the execution or settlement of any transaction or in the transfer of any funds or securities. Subject to the applicable laws and regulations in the PRC, the Manager will make arrangements to ensure that the relevant PRC Broker and PRC Custodian have appropriate procedures to properly safe-keep the Sub-Fund’s assets.

According to the RQFII Regulations and market practice, the securities and cash accounts for the Sub-Fund in the PRC are maintained in the joint names of the Manager as the RQFII and the Sub-Fund. Although the Manager has obtained a legal opinion that the assets in such securities

account would belong to the Sub-Fund, such opinion cannot be relied on as being conclusive, as the RQFII Regulations are subject to the interpretation of the relevant authorities in the PRC.

Investors should note that cash deposited in the cash account of the Sub-Fund with the PRC Custodian will not be segregated but will be a debt owing from the PRC Custodian to the Sub-Fund as a depositor. Such cash will be co-mingled with cash belong to other clients of the PRC Custodian. In the event of bankruptcy or liquidation of the PRC Custodian, the Sub-Fund will not have any proprietary rights to the cash deposited in such cash account, and the Sub-Fund will become an unsecured creditor, ranking *pari passu* with all other unsecured creditors, of the PRC Custodian. The Sub-Fund may face difficulty and/or encounter delays in recovering such debt, or may not be able to recover it in full or at all, in which case the Sub-Fund will suffer losses.

#### *Repatriation risk*

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

#### **Risks associated with the Stock Connect**

The Sub-Fund's investments through the Stock Connect 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 only be able 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.

*Front-end Monitoring Risk:* PRC regulations require that in order for an investor to sell any A Share on a certain trading day, there must be sufficient A Shares in the investor's account before market opens on that day. If there are insufficient A Shares in the investor's account, the sell order will be rejected by the SSE or the SZSE. The SEHK carries out pre-trade checking on SSE Securities and SZSE Securities sell orders of its participants (i.e. stock brokers) to ensure that this requirement is satisfied. This means that investors must transfer SSE Securities and SZSE Securities to the accounts of its brokers before the market opens on the day of selling (the "trading day"). If an investor fails to meet this deadline, it will not be able to sell SSE Securities or SZSE Securities on the relevant trading day. Because of this requirement, investors may not be able to dispose of holdings of SSE Securities or SZSE Securities in a timely manner. This also raises concerns as to counterparty risks as securities may need to be kept by brokers overnight.

To facilitate investors whose SSE Securities or SZSE Securities are maintained with custodians to sell their SSE Securities or SZSE Securities without having to pre-deliver the SSE Securities or SZSE Securities from their custodians to their executing brokers, the HKEx introduced an enhanced pre-trade checking model in March 2015, under which an investor may request its custodian to open a Special Segregated Account (SPSA) in CCASS to maintain its holdings in SSE Securities and SZSE Securities. Such investors only need to transfer SSE Securities or SZSE Securities from its SPSA to its designated broker's account after execution and not before placing the sell order. This enhanced model is novel and initial market reaction has been varied. If the Sub-Fund is unable to utilise this model, it would have to deliver SSE Securities or SZSE Securities to brokers before the trading day and the above risks may still apply.

*Suspension risk:* Each of the SEHK, the SSE and the SZSE reserves 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 North bound trading is effected, the Sub-Fund's ability to access the A-Share market through the Stock Connect will be adversely affected.

*Differences in trading day risk:* The Stock Connect only operates on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as the Sub-Fund) cannot carry out any A-Shares trading. Due to the differences in trading days, the Sub-Fund may be subject to a risk of price fluctuations in A-Shares on a day that the PRC stock markets are open for trading but the Hong Kong stock market is closed.

*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 Underlying Index if, for example, a constituent of the Underlying Index is recalled from the scope of eligible stocks.

*Clearing and settlement risk:* The HKSCC and CSDCC establish clearing links and each has become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house. Should the remote event of CSDCC default occur and the CSDCC be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against the CSDCC. HKSCC will in good faith seek recovery of the outstanding stocks and monies from the CSDCC through available legal channels or through the CSDCC's liquidation. In that event, the 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.

*No Protection by Investor Compensation Fund risk:* The Sub-Fund's investments through the Stock Connect will not be covered by Hong Kong's 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. Since default matters in Northbound trading via the Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund. On the other hand, since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, they are not protected by the China Securities Investor Protection Fund (中國投資者保護基金) in the PRC. 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.

*Shenzhen-Hong Kong Stock Connect Specific Risks:* The Shenzhen-Hong Kong Stock Connect is newly launched and does not have an operating history and the risks identified above are particularly relevant to the Shenzhen-Hong Kong Stock Connect due to the lack of an operating history. Investors should note that the performance of the Shenzhen-Hong Kong Stock Connect may not be the same as the performance of the Shanghai-Hong Kong Stock Connect to date.”

### **Risks associated with the RMB currency**

#### *RMB is not freely convertible and subject to exchange controls and restrictions risk*

It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate. In April 2012, the PBOC decided to take a further step to increase the flexibility of the RMB exchange rate by expanding the daily trading band from +/- 0.5% to +/-1%. However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Sub-Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, currently continue to be subject to significant foreign exchange controls and require the approval of the SAFE. On the other hand, the existing PRC foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Nevertheless, the Manager cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of the RMB to foreign currency.

#### *RMB trading and settlement of Units risk*

The trading and settlement of RMB denominated securities are recent developments in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. In addition, the Units are amongst the first securities with a Dual Counter (i.e. RMB traded and HKD traded Units) traded on the SEHK and settled in CCASS. Although end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in March, September and October 2011, some brokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, there is no assurance of their readiness for dealing in RMB denominated securities. Investors should note that not all brokers may be ready and able to carry out trading and settlement of RMB traded Units and thus they may not be able to deal in the RMB traded Units through some brokers. Investors should check with their brokers in advance if they intend to engage Dual Counter trading or in inter-counter transfers and should fully understand the services which the relevant broker is able to provide (as well as any associated fees). Some exchange participants may not provide inter-counter transfer or Dual Counter trading services.

#### *Non-RMB or late settlement redemption risk*

Where, in extraordinary circumstances, the remittance or payment of RMB funds on the redemption of Units cannot, in the opinion of the Manager in consultation with the Trustee, be carried out normally due to legal or regulatory circumstances beyond the control of the Trustee and

the Manager, redemption proceeds may be delayed or, if necessary in exceptional circumstances, be paid in US dollars or Hong Kong dollars instead of in RMB (at an exchange rate determined by the Manager after consultation with the Trustee). As such, there is a risk that investors may not be able to receive, through Participating Dealers, settlement upon a redemption of Units in RMB (and may receive US dollars or Hong Kong dollars) or may receive settlement in RMB on a delayed basis.

*RQFII late settlement risk*

The Sub-Fund will be required to remit RMB from Hong Kong to the PRC to settle the purchase of A-Shares by the Sub-Fund from time to time. In the event such remittance is disrupted, the Sub-Fund will not be able to fully replicate the Index by investing in the relevant A-Shares and this may increase the tracking error of the Sub-Fund.

*Exchange rates movement between the RMB and other currencies risk*

Investors in RMB traded Units whose assets and liabilities are predominantly in Hong Kong dollars or in currencies other than RMB should take into account the potential risk of loss arising from fluctuations in value between such currencies and RMB. In addition, investors in HKD traded Units should note that distributions on HKD traded Units will only be paid in RMB. Accordingly, foreign exchange risk will also apply to investors in HKD traded Units. There is no guarantee that RMB will appreciate in value against Hong Kong dollar or any other currency, or that the strength of RMB may not weaken. In such case an investor may enjoy a gain in RMB terms but suffer a loss when converting funds from RMB back into Hong Kong dollars (or any other currency).

*Future movements in RMB exchange rates risk*

The exchange rate of RMB ceased to be pegged to US dollars on 21 July 2005, resulting in a more flexible RMB exchange rate system. China Foreign Exchange Trading System, authorised by the PBOC, promulgates the central parity rate of RMB against US dollars, Euro, Yen, pound sterling and Hong Kong dollar at 9:15 a.m. on each business day, which will be the daily central parity rate for transactions on the Inter-bank Spot Foreign Exchange Market and OTC transactions of banks. The exchange rate of RMB against the above-mentioned currencies fluctuates within a range above or below such central parity rate. As the exchange rates are based primarily on market forces, the exchange rates for RMB against other currencies, including US dollars and Hong Kong dollars, are susceptible to movements based on external factors. There can be no assurance that such exchange rates will not fluctuate widely against US dollars, Hong Kong dollars or any other foreign currency in the future. From 1994 to July 2005, the exchange rate for RMB against US dollar and the Hong Kong dollar was relatively stable. Since July 2005, the appreciation of RMB has begun to accelerate. Although the PRC government has constantly reiterated its intention to maintain the stability of RMB, it may introduce measures (such as a reduction in the rate of export tax refund) to address the concerns of the PRC's trading partners. Therefore, the possibility that the appreciation of RMB will be further accelerated cannot be excluded. On the other hand, there can be no assurance that RMB will not be subject to devaluation.

### *Offshore RMB (“CNH”) market risk*

The onshore RMB (“CNY”) is the only official currency of the PRC and is used in all financial transactions between individuals, state and corporations in the PRC. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC. Since June 2010, the offshore RMB (“CNH”) is traded officially, regulated jointly by the Hong Kong Monetary Authority and the PBOC. While both CNY and CNH represent RMB, they are traded in different and separated markets. The two RMB markets operate independently where the flow between them is highly restricted. Though the CNH is a proxy of the CNY, they do not necessarily have the same exchange rate and their movement may not be in the same direction. This is because these currencies act in separate jurisdictions, which leads to separate supply and demand conditions for each, and therefore separate but related currency markets.

However, the current size of RMB-denominated financial assets outside the PRC is limited. As at 31 August 2016, the total amount of RMB (CNH) deposits held by institutions authorised to engage in RMB banking business in Hong Kong amounted to approximately RMB653 billion. In addition, participating authorised institutions are also required by the Hong Kong Monetary Authority to maintain a total amount of RMB (in the form of cash and its settlement account balance with the Renminbi Clearing Bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions. Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of RMB offshore. The limited availability of RMB outside the PRC may affect the ability of investors to acquire Units or to sell Units of the Sub-Fund affecting the liquidity and therefore the trading price of the Units on the SEHK. To the extent the Manager is required to source RMB in the offshore market, there is no assurance that it will be able to source such RMB on satisfactory terms, if at all.

### *RMB distributions risk*

Investors should note that where a Unitholder holds Units traded under the HKD counter, the relevant Unitholder will only receive distributions in RMB and not HKD. In the event the relevant Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such dividend from RMB into HKD or any other currency. Unitholders are advised to check with their brokers concerning arrangements for distributions.

## **Risks associated with the PRC**

### *A-Share market trading hours difference risk*

Differences in trading hours between foreign stock exchanges (e.g. Shanghai Stock Exchange and Shenzhen Stock Exchange) and the SEHK may increase the level of premium/discount of the Unit price to its Net Asset Value because if a PRC stock exchange is closed while the SEHK is open, the Index level may not be available. The prices quoted by the SEHK market maker would therefore be adjusted to take into account any accrued market risk that arises from such unavailability of the Index level and as a result, the level of premium or discount of the Unit price of the Sub-Fund to its Net Asset Value may be higher.

### *A-Share market suspension risk*

A-Shares may only be bought from, or sold to, the Sub-Fund from time to time where the relevant A-Shares may be sold or purchased on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, as appropriate. Given that the A-Share market is considered volatile and unstable (with the risk of suspension of a particular stock or government intervention), the creation and redemption of Units may also be disrupted. A Participating Dealer is unlikely to redeem or create Units if it considers that A-Shares may not be available.

### *Economic, political and social risks*

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

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

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

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

### *PRC laws and regulations risk*

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

### *Restricted markets risk*

The Sub-Fund may invest in Securities in respect of which the PRC imposes limitations or restrictions on foreign ownership or holdings. In such circumstances, the Sub-Fund may be required to make investments indirectly. Such legal and regulatory restrictions or limitations may have adverse effects on the liquidity and performance of the Sub-Fund holdings as compared to the performance of the Index. This may increase the risk of tracking error.

### *Accounting and reporting standards risk*

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

### *Changes in PRC taxation risk*

The PRC Government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies. In particular, please refer to the risk factor on “Risk associated with PRC taxation” below.

### *PRC withholding taxation risk*

The Manager does not make any withholding tax (“WIT”) provision on the gross unrealised and realised capital gains derived from trading of A-Shares from 17 November 2014 onwards. Please refer to the sub-section “Taxation” – “PRC Taxation” for further information in this regard.

There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised by the Sub-Fund on its investments in the PRC via RQFII or the Stock Connect. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. There is a risk that taxes may be levied in future on the Sub-Fund for which no provision is made, which may potentially cause substantial loss to the Sub-Fund.

Unitholders should note that the tax reporting and tax treaty relief application (detailed in “PRC Taxation” – “Capital gains”) are made in accordance with the prevailing tax rules and practices of the Shanghai tax authority at the time of submission. The Net Asset Value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the PRC tax authorities. The Manager will closely monitor any further guidance by the relevant PRC tax authorities and adjust the withholding policy of the Sub-Fund accordingly, taking into account independent professional tax advice. The Manager will act in the best interest of the Sub-Fund at all times.

Unitholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If no provision is made by the Manager in relation to all or part of the actual tax levied by the SAT in future, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to those borne at the time of investment in the Sub-Fund.

## **Risks associated with investment in the Sub-Fund**

### *Investment objective risk*

There is no assurance that the investment objective of the Sub-Fund will be achieved. Whilst it is the intention of the Manager to implement strategies which are designed to minimise tracking error, there can be no assurance that these strategies will be successful. It is possible that you as an investor may lose a substantial proportion or all of its investment in the Sub-Fund where the Index value declines. As a result, each investor should carefully consider whether you can afford to bear the risks of investing in the Sub-Fund.

### *Market risk*

The Net Asset Value of the Sub-Fund will change with changes in the market value of the Securities it holds. The price of Units and the income from them may go down as well as up. There can be no assurance that an investor will achieve profits or avoid losses, significant or otherwise. The capital return and income of the Sub-Fund is based on the capital appreciation and income on the Securities it holds, less expenses incurred. The Sub-Fund's return may fluctuate in response to changes in such capital appreciation or income. Furthermore, the Sub-Fund may experience volatility and decline in a manner that broadly corresponds with the Index. Investors in the Sub-Fund are exposed to the same risks that investors who invest directly in the underlying Securities would face. These risks include, for example, interest rate risks (risks of falling portfolio values in a rising interest rate market); income risks (risks of falling incomes from a portfolio in a falling interest rate market); and credit risk (risk of a default by the underlying issuer of a Security that forms part of the Index).

#### *Asset class risk*

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

#### *Passive investments*

The Sub-Fund is not actively managed. Accordingly, the Sub-Fund may be affected by a decline in the market segments relating to the Index. The Manager will not take defensive positions in declining markets. Investors may lose a significant part of their respective investments if the Index falls. The Sub-Fund invests in the Securities included in or representative of the Index regardless of their investment merit, except to the extent of any representative sampling strategy. The Manager does not attempt to select stocks individually or to take defensive positions in declining markets. You should note that the lack of discretion on the part of the Manager to adapt to market changes due to the inherent investment nature of the Sub-Fund will mean that falls in the Index are expected to result in corresponding falls in the value of the Sub-Fund.

#### *Possible business failure risk*

In the current economic environment, global markets are experiencing very high level of volatility and an increased risk of corporate failures. The insolvency or other corporate failures of any one or more of the constituents of the Index may have an adverse effect on the Index's and therefore the Sub-Fund's performance. You may lose money by investing in the Sub-Fund.

#### *Management risk*

Because there can be no guarantee that the Sub-Fund will fully replicate the Index, it is subject to management risk. This is the risk that the Manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. In addition, the Manager has absolute discretion to exercise Unitholders' rights with respect to Securities comprising the Sub-Fund. There can be no guarantee that the exercise of such discretion will result in the investment objective of the Sub-Fund being achieved.

#### *Securities risk*

The investments of the Sub-Fund are subject to risks inherent in all Securities (including settlement and counterparty risks). The value of holdings may fall as well as rise. The global markets are currently experiencing very high levels of volatility and instability, resulting in higher levels of risk than is customary (including settlement and counterparty risks).

#### *Equity risk*

Investing in equity Securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity

Securities may also be higher, because the investment performance of equity Securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value.

#### *Tracking error risk*

Although the Manager will adopt a primarily full replication strategy to reduce tracking error, the Manager may use representative sampling (for example where it is not possible to acquire certain Securities which are constituents of the Index due to restrictions or limited availability), and there can be no assurance of exact or identical replication at any time of the performance of the Index. Because the Manager has no other strategy to minimise tracking error and representative sampling may not provide identical performance, the Net Asset Value of the Sub-Fund may not correlate exactly with the Index. Factors such as the fees and expenses of the Sub-Fund, imperfect correlation between the Sub-Fund's assets and the Securities constituting the Index, inability to rebalance the Sub-Fund's holdings of Securities in response to changes in the constituents of the Index, rounding of Security prices, and changes to the regulatory policies may affect the Manager's ability to achieve close correlation with the Index. These factors may cause the Sub-Fund's returns to deviate from the Index.

#### *Concentration risk*

The Sub-Fund is subject to concentration risk as a result of tracking the performance of a single geographical region (the PRC). It is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as it is more susceptible to fluctuations in value resulting from adverse conditions in the PRC.

#### *Trading risk*

While the creation/redemption feature of the Sub-Fund is designed to make it likely that Units will trade close to their Net Asset Value, disruptions to creations and redemptions (for example, as a result of imposition of capital controls by a foreign government) may result in trading prices that differ significantly from the Net Asset Value). The secondary market prices of Units will fluctuate in accordance with changes in the Net Asset Value and supply and demand on any exchange on which Units are listed. The Manager cannot predict whether Units will trade below, at, or above their Net Asset Value. Since, however, Units must be created and redeemed in Application Unit size (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their Net Asset Value) the Manager believes that ordinarily large discounts or premiums to the Net Asset Value of Units should not be sustained. If the Manager suspends creations and/or redemptions of Units, the Manager anticipates that there may be larger discounts or premiums as between the secondary market price of Units and the Net Asset Value.

#### *Loss of capital risk*

There is no guarantee that the Sub-Fund's investments will be successful. In addition, trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the execution of due care and special procedures designed to prevent such errors.

#### *No trading market in the Units risk*

Although the Units are listed on the SEHK and one or more Market Makers have been appointed, there may be no liquid trading market for the Units or that such Market Maker(s) may cease to fulfil that role. Further, there can be no assurance that Units will experience trading or pricing patterns similar to those of exchange traded funds which are issued by investment companies in other jurisdictions or those traded on the SEHK which are based upon indices other than the Index.

#### *Indemnity risk*



Under the Trust Deed, the Trustee and the Manager have the right to be indemnified against any liability for breach of trust or any liability which by virtue of any rule of law would otherwise attach to them in performing their respective duties except as a result of their own negligence, fraud, default, breach of duty or trust of which they may be liable in relation to their duties. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of the Sub-Fund and the value of the Units.

#### *Dividends or distributions may not be paid risk*

It is the Manager's intention that the Sub-Fund will pay distributions on Units but this will mainly depend on dividends or distributions declared and paid in respect of the Securities of the Index. Such dividends or distributions received by the Sub-Fund may be applied towards meeting the costs and expenses of the Sub-Fund. Dividend or distribution payment rates in respect of such Securities will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend or distribution policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions.

#### *Possible early termination of the Sub-Fund risk*

The Sub-Fund may be terminated early under certain circumstances, including but not limited to (i) the aggregate Net Asset Value of all the Units is less than RMB150 million or (ii) any law is passed or amended or regulatory directive or order is imposed which renders it illegal or in the opinion of the Manager, impracticable or inadvisable to continue the Sub-Fund or (iii) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed or (iv) the Index is no longer available for benchmarking or if the Units are no longer listed on the SEHK or any other Recognised Stock Exchange or (v) at any time, the Sub-Fund ceases to have any Participating Dealer. Upon the Sub-Fund being terminated, the Trustee will distribute the net cash proceeds (if any) derived from the realisation of the investments comprised in the Sub-Fund to the Unitholders in accordance with the Trust Deed. Any such amount distributed may be more or less than the capital invested by the Unitholder.

### **Risks associated with market trading**

#### *Dual Counter risks*

The SEHK's Dual Counter model in Hong Kong is new. In addition the Sub-Fund are one of the first exchange traded funds to have Dual Counter traded Units which are traded and settled in RMB under the RMB counter and traded and settled in HKD under the HKD counter. The novelty and relatively untested nature of the Dual Counter for exchange traded funds may make investment in the Units riskier than in single counter units or shares of an SEHK listed issuer for example where for some reason there is a settlement failure on an inter-counter transfer if the Units of one counter are delivered to CCASS at the last settlement on a trading day, leaving not enough time to transfer the Units to the other counter for settlement on the same day.

In addition, where there is a suspension of the inter-counter transfers of Units between the HKD counter and the RMB counter due to, for example, operational or systems interruption, Unitholders will only be able to trade their Units in the currency of the relevant counter. Accordingly it should be noted that the inter-counter transfers may not always be available.

There is a risk that the market price on the SEHK of Units traded in HKD may deviate significantly from the market price on the SEHK of Units traded in RMB due to market liquidity, supply and demand in each counter and the exchange rate between the RMB and the HKD (in both the onshore and the offshore markets). The trading price of HKD traded Units or RMB traded Units is determined by market forces and so will not be the same as the trading price of Units multiplied by the prevailing rate of foreign exchange. Accordingly when selling Units traded in HKD or buying Units traded in HKD, an investor may receive less or pay more than the equivalent amount in RMB if the trade of the relevant Units is in RMB and *vice versa*. There can

be no assurance that the price of Units in each counter will be equivalent.

Investors without RMB accounts may buy and sell HKD traded Units only. Such investors will not be able to buy or sell RMB traded Units and should note that distributions are made in RMB only. As such investors may suffer a foreign exchange loss and incur foreign exchange associated fees and charges to receive their dividend.

It is possible that some brokers and CCASS participants may not be familiar with and may not be able to (i) buy Units in one counter and to sell Units in the other, (ii) carry out inter-counter transfers of Units, or (iii) trade Units in both counters at the same time. In such a case another broker or CCASS participant may need to be used. Accordingly this may inhibit or delay an investor dealing in both HKD traded and RMB traded Units and may mean an investors may only be able to sell their Units in one currency. Investors are recommended to check the readiness of their brokers in respect of the Dual Counter trading and inter-counter transfer.

#### *Absence of active market and liquidity risks*

Although Units of the Sub-Fund are listed for trading on the SEHK, there can be no assurance that an active trading market for such Units will develop or be maintained. In addition, if the underlying Securities which comprise the Sub-Fund themselves have limited trading markets, or if the spreads are wide, this may adversely affect the price of the Units and the ability of an investor to dispose of its Units at the desired price. If you need to sell your Units at a time when no active market for them exists, the price you receive for your Units — assuming you are able to sell them — is likely to be lower than the price received if an active market did exist.

#### *Suspension of trading risk*

Investors and potential investors will not be able to buy, nor will investors be able to sell, Units on the SEHK during any period in which trading of the Units is suspended. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate and in the interest of a fair and orderly market to protect investors. The subscription and redemption of Units may also be suspended if the trading of Units is suspended.

#### *Trading differences risk*

As the Shanghai Stock Exchange and the Shenzhen Stock Exchange may be open when Units in the Sub-Fund are not priced, the value of the Securities in the Sub-Fund's portfolio may change on days when investors will not be able to purchase or sell the Sub-Fund's Units. Furthermore, the market price of underlying Securities listed on the above stock exchanges which are established outside Hong Kong may not be available during part or all of the SEHK trading sessions due to trading hour differences which may result in the trading price of the Sub-Fund deviating away from the Net Asset Value. A-Shares are subject to trading bands which restrict increases and decreases in the trading price. Units listed on the SEHK are not. This difference may also increase the level of premium or discount of the Unit price to its Net Asset Value.

#### *Effect of redemptions risk*

If significant redemptions of Units are requested by the Participating Dealers, it may not be possible to liquidate the Sub-Fund's investments at the time such redemptions are requested or the Manager may be able to do so only at prices which the Manager believes does not reflect the true value of such investments, resulting in an adverse effect on the return to investors. Where significant redemptions of Units are requested by the Participating Dealers, the right of Participating Dealers to require redemptions in excess of 10% of the total number of Units in the Sub-Fund then in issue (or such higher percentage as the Manager may determine and as permitted by the SFC) may be deferred, or the period for the payment of redemption proceeds may be extended.

In addition, the Manager may also in certain circumstances suspend the determination of the Net Asset Value of the Sub-Fund for the whole or any part of any period. Please see the section on

“Determination of Net Asset Value” for further details.

*Units may trade at prices other than Net Asset Value risk*

Units trade on the SEHK at prices above or below the most recent Net Asset Value. The Net Asset Value per Unit of the Sub-Fund is calculated at the end of each Dealing Day and fluctuates with changes in the market value of the Sub-Fund’s holdings. The trading prices of the Units fluctuate continuously throughout the trading hours based on market supply and demand rather than Net Asset Value. The trading price of the Units may deviate significantly from Net Asset Value particularly during periods of market volatility. Any of these factors may lead to the Units of the Sub-Fund trading at a premium or discount to the Net Asset Value. On the basis that Units can be created and redeemed in Application Units at Net Asset Value, the Manager believes that large discounts or premiums to Net Asset Value are not likely to be sustained over the long-term. While the creation/redemption feature is designed to make it likely that the Units will normally trade at prices close to the Sub-Fund’s next calculated Net Asset Value, trading prices are not expected to correlate exactly with the Sub-Fund’s Net Asset Value due to reasons relating to timing as well as market supply and demand factors. In addition, disruptions to creations and redemptions or the existence of extreme market volatility may result in trading prices that differ significantly from Net Asset Value. In particular, if an investor purchases Units at a time when the market price is at a premium to Net Asset Value or sells when the market price is at a discount to Net Asset Value, then the investor may sustain losses.

*Borrowing risks*

The Trustee, at the request of the Manager, may borrow for the account of the Sub-Fund (up to 10% of the Net Asset Value of the Sub-Fund) for various reasons, such as facilitating redemptions or to acquire investments for the account of the Sub-Fund. Borrowing involves an increased degree of financial risk and may increase the exposure of the Sub-Fund to factors such as rising interest rates, downturns in the economy or deterioration in the conditions of the assets underlying its investments. There can be no assurance that the Sub-Fund will be able to borrow on favourable terms, or that the Sub-Fund's indebtedness will be accessible or be able to be refinanced by the Sub-Fund at any time.

*Government intervention and restrictions risk*

Governments and regulators may intervene in the financial markets, such as by the imposition of trading restrictions, a ban on “naked” short selling or the suspension of short selling for certain stocks. This may affect the operation and market making activities of the Sub-Fund, and may have an unpredictable impact on the Sub-Fund. Furthermore, such market interventions may have a negative impact on the market sentiment which may in turn affect the performance of the Index and as a result the performance of the Sub-Fund.

*Cost of trading Units risk*

As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell Units on the SEHK, investors may pay more than the Net Asset Value per Unit when buying Units on the SEHK, and may receive less than the Net Asset Value per Unit when selling Units on the SEHK.

In addition, investors on the secondary market will also incur the cost of the trading spread, being the difference between what investors are willing to pay for the Units (bid price) and the price at which they are willing to sell Units (ask price). Frequent trading may detract significantly from investment results and an investment in Units may not be advisable particularly for investors who anticipate making small investments regularly.

*No right to control the Sub-Fund’s operation risk*

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

*Secondary market trading risk*

Units may trade on the SEHK when the Sub-Fund does not accept orders to subscribe or redeem Units. On such days, Units may trade in the secondary market with more significant premiums or discounts than might be experienced on days when the Sub-Fund accepts subscription and redemption orders.

#### *Reliance on the Manager risk*

Unitholders must rely upon the Manager in formulating the investment strategies and the performance of the 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 Trustee may not find successor managers with the requisite skills, qualifications and RQFII status quickly (or at all) and the new appointment may not be on equivalent terms or of similar quality.

#### *Reliance on Market Makers risk*

Although it is a requirement that the Manager uses its best endeavours to put in place arrangements so that at least one Market Maker will maintain a market for the Units traded in each counter, it should be noted that liquidity in the market for the Units may be adversely affected if there is no Market Maker for the RMB traded Units or no Market Maker for the HKD traded Units or no Market Maker for the RMB traded Units. The Manager will seek to mitigate this risk by using its best endeavours to put in place arrangements so that at least one Market Maker for the Units traded in each counter gives not less than 3 months' notice prior to terminating market making under the relevant market making agreement(s). There may be less interest by potential Market Makers in making a market in Units denominated or traded in RMB. Further, any disruption to the availability of RMB may adversely affect the capability of Market Makers in providing liquidity for RMB traded Units. It is possible that there is only one SEHK Market Maker to a counter or to the Sub-Fund or the Manager may not be able to engage a substitute Market Maker within the termination notice period of a Market Maker, and there is also no guarantee that any market making activity will be effective.

#### *Reliance on Participating Dealers risk*

The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of Securities through the CCASS is disrupted or the Index is not compiled or published. In addition, Participating Dealers will not be able to issue or redeem Units if some other event occurs that impedes the calculation of the Net Asset Value of the Sub-Fund or disposal of the Sub-Fund's Securities cannot be effected. Where a Participating Dealer appoints a PD Agent to perform certain CCASS-related functions, if the appointment is terminated and the Participating Dealer fails to appoint an alternative PD Agent, or if the PD Agent ceases to be a CCASS participant, the creation or redemption of Units by such Participating Dealer may also be affected. Since the number of Participating Dealers at any given time will be limited, and there may even be only one Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

### **Risks associated with the Index**

#### *Fluctuations risk*

The performance of the Units should, before fees and expenses, correspond closely with the performance of the Index. If the Index experiences volatility or declines, the price of the Units will vary or decline accordingly.

#### *Licence to use Index may be terminated risk*

The Manager is granted a licence by the Index Provider to use the Index to create the Sub-Fund based on the Index and to use certain trademarks and any copyright in the Index. The Sub-Fund

may not be able to fulfil its objective and may be terminated if the licence agreement is terminated. The initial term of the licence agreement is 3 years and is thereafter renewable every 2 years. Although the licence agreement was renewed for 2 years after the initial 3 years term expired, there can be no guarantee that the licence agreement will be perpetually renewed. For further information on the grounds for terminating the licence agreement, please refer to the section on “Index Licence Agreement”. The Sub-Fund may also be terminated if the Index ceases to be compiled or published and there is no replacement Index using the same or substantially similar formula for the method of calculation as used in calculating the Index.

#### *Compilation of Index risk*

The Securities of the Index are determined and composed by the Index Provider without regard to the performance of the Sub-Fund. The Sub-Fund is not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider makes no representation or warranty, express or implied, to investors in the Sub-Fund or other persons regarding the advisability of investing in Securities generally or in the Sub-Fund particularly. The Index Provider has no obligation to take the needs of the Manager or investors in the Sub-Fund into consideration in determining, composing or calculating the Index. There is no assurance that the Index Provider will compile the Index accurately, or that the Index will be determined, composed or calculated accurately. In addition, the process and the basis of computing and compiling the Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the Index Provider without notice. Consequently there can be no guarantee that the actions of the Index Provider will not prejudice the interests of the Sub-Fund, the Manager or investors.

#### *Composition of the Index may change risk*

The Securities constituting the Index will change as the Securities of the Index are delisted, or as the Securities mature or are redeemed or as new Securities are included in the Index. When this happens the weightings or composition of the Securities owned by the Sub-Fund will change as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. However, there can be no guarantee that the Sub-Fund will, at any given time accurately reflect the composition of the Index (refer to the section on “Tracking error risk”).

### **Risks associated with regulation**

#### *Withdrawal of SFC authorisation risk*

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

#### *General legal and regulatory risk*

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

Unitholder may lose a material part of its investments in the Sub-Fund.

*Units may be delisted from the SEHK risk*

The SEHK imposes certain requirements for the continued listing of securities, including the Units, on the SEHK. Investors cannot be assured that the Sub-Fund will continue to meet the requirements necessary to maintain the listing of Units on the SEHK or that the SEHK will not change the listing requirements. If the Units of the Sub-Fund are delisted from the SEHK, Unitholders will have the option to redeem their Units by reference to the Net Asset Value of the Sub-Fund. Where the Sub-Fund remains authorised by the SFC, such procedures required by the Code will be observed by the Manager including as to notices to Unitholders, withdrawal of authorisation and termination, as may be applicable. Should the SFC withdraw authorisation of the Sub-Fund for any reason it is likely that Units may also have to be delisted.

*Taxation risk*

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

*Risks relating to FATCA*

Section 1471-1474 of the United States Internal Revenue Code of 1986, as amended (commonly known as the Foreign Account Tax Compliance Act or "FATCA") provides that a 30% withholding tax will be imposed on certain payments to foreign financial institutions, such as the Trust and the Sub-Fund, including interests and dividends from securities of U.S. issuers and gross proceeds from the sale of such securities, unless the Trust discloses to the U.S. Internal Revenue Service (the "IRS") the name, address and taxpayer identification number of certain US persons that own, directly or indirectly, an interest in the relevant Sub-fund, as well as certain other information relating to any such interest. The IRS has released regulations and other guidance that provide for the phased implementation of the foregoing withholding and reporting requirements. The United States and Hong Kong government have entered into an intergovernmental agreement based on the Model 2 format ("Model 2 IGA"). The Model 2 IGA modifies the foregoing requirements but generally requires similar information to be disclosed to the IRS. The Sub-Fund has completed its FATCA registration with the IRS as Single Foreign Financial Institution with Global Intermediary Identification Number RULWM4.99999.SL.344. Although the Trust and the Sub-Fund will attempt to satisfy any obligations imposed on them to avoid the imposition of FATCA withholding tax, no assurance can be given that the Trust and the Sub-Fund will be able to achieve this and/or satisfy such FATCA obligations. If the Sub-Fund becomes subject to the 30% FATCA withholding tax, the Net Asset Value of the Sub-Fund may be adversely affected and the Sub-Fund and Unitholders may suffer material loss.

The Trust and the Sub-Fund's ability to comply with FATCA will depend on each Unitholder providing the Trust and/or the Sub-Fund with information that the Trust and/or the Sub-Fund requests concerning the Unitholder or its direct and indirect owners. If a Unitholder fails to provide the Trust and/or the Sub-Fund with any information the Trust and/or the Sub-Fund requests, and, in the opinion of the Manager, holding of Units by such person (whether directly or beneficially) will result in the Product incurring any liability to taxation or suffering a pecuniary disadvantage which the Trust and/or the Sub-Fund might not otherwise have incurred or suffered, or the Trust and/or the Sub-Fund being exposed to any liability, penalty or regulatory action, then the Manager, with the approval of the Trustee, may exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder. Any such transfer or compulsory redemption will be done in accordance with applicable laws and regulations, and the discretion to do so will be exercised by the Manager in consultation with the Trustee acting in good faith and on reasonable grounds.

Please also refer to the sub-section entitled "FATCA and compliance with US withholding requirements" under the section headed "Taxation" in this Prospectus for further details on FATCA.

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

#### *Valuation and accounting risk*

The Manager intends to adopt IFRS in drawing up the annual financial reports of the Sub-Fund. However, the calculation of the Net Asset Value in the manner described under the section on “Determination of Net Asset Value” will not necessarily be in compliance with generally accepted accounting principles, that is, IFRS. Under IFRS (i) investments should be valued at fair value (bid and offer pricings are considered to be representative of fair value for listed investments) rather than last traded price; and (ii) establishment costs should be expensed as incurred rather than amortised over a period of time. Accordingly, the Net Asset Value as described in this Prospectus will not necessarily be the same as the net asset value to be reported in the annual financial reports as the Manager will make necessary adjustments in the annual financial reports to comply with IFRS (although the Manager does not consider the differences between IFRS and the calculation of Net Asset Value are material). Any such adjustments will be disclosed in the annual financial reports, including a reconciliation. Otherwise, non-compliance with IFRS may result in the auditors issuing a qualified or an adverse opinion on the annual financial reports depending on the nature and level of materiality of the non-compliance.

#### *Contagion across sub-funds risk*

The Trust Deed allows the Trustee and the Manager to issue Units in separate sub-funds. The Trust Deed provides for the manner in which the liabilities are to be attributed across the various sub-funds under the Trust, including the Sub-Fund (liabilities are to be attributed to the specific 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 sub-fund (in the absence of the Trustee granting that person a security interest). However, the Trustee will have a right of reimbursement and indemnity out of the assets of the Trust as a whole or any part thereof, against any action, costs, claims, damages, expenses or demands relating to the Trust as a whole, which may result in Unitholders of one sub-fund being compelled to bear the liabilities incurred in respect of other sub-funds in which such Unitholders do not themselves own units, if there are insufficient assets in that other sub-fund to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of one sub-fund may not be limited to that particular sub-fund and may be required to be paid out of one or more other sub-funds.

#### *Non-recognition of sub-fund segregation risk*

The assets and liabilities of each sub-fund (including the Sub-Fund) under the Trust will be tracked, for book keeping purposes, separately from the assets and liabilities of any other sub-funds, and the Trust Deed provides that the assets of each sub-fund should be segregated from each other. There is no guarantee that the courts of any jurisdiction outside Hong Kong 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.

## MANAGEMENT OF THE TRUST

### The Manager

The Manager of the Trust is China Asset Management (Hong Kong) Limited, which 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 (RMB 1006.6 billion as of 31 December 2018).

The Manager was established in September 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.

In accordance with Section 116 of the SFO, the Manager is licensed to conduct types 1, 4 and 9 regulated activities as defined in Schedule 5 of the SFO. These regulated activities consist of dealing in securities, advising on securities and asset management.

Under the Trust Deed, the monies forming part of the Sub-Fund are invested, at the direction of the Manager, in accordance with the Trust Deed. The Manager is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of the Trust.

Without limiting the other powers mentioned in this Prospectus, the Manager may purchase and sell investments for the account of the Sub-Fund and subject to the provisions of the Trust Deed and enter into such contracts including sale and purchase agreements, loans and broker and trading agreements in accordance with the Trust Deed, as it deems appropriate in the performance of its role as Manager.

### The Directors of the Manager

The Directors of the Manager are:

**Mr. YANG Minghui** is currently the Chairman of the Manager and ChinaAMC. He currently also serves as General Manager and an Executive Director of CITIC Securities Co. Ltd. Mr. Yang’s previous experiences include Engineer and Deputy Division Head of Beijing Textile Machinery Research Institute; Project Manager of Textile Division in CITIC Industrial Investment Trust Co.; Project Manager of Securities Department of China International Trust & Investment Corporation; Vice General Manager of CITIC Securities Beijing Branch; Director, Assistant General Manager, Vice President of CITIC Securities Ltd; Director and Executive Vice President of CITIC Holdings Ltd.; Director of CITIC Trust Co., Ltd.; Chairman of CITIC-Prudential Fund Management Co., Ltd.; and Executive Director, President, Vice Secretary of Party Committee of China Jianyin Investment Securities Co., Ltd. Mr. Yang received a Master’s degree from East China Institute of Textile Science and Technology.

**Mr. ZHANG Xiaoling** is currently the Chief Executive Officer of the Manager and the Deputy Chief Executive Officer of ChinaAMC. Before joining the Manager, Mr. Zhang worked as the Deputy Director-General of Banking Supervision Department III at China Banking Regulatory Commission (CBRC) and a senior risk manager at Morgan Stanley in New York, and an economist at Federal Reserve Board in Washington D.C.. Mr. Zhang holds a Ph.D. in Finance and a Master of Arts degree in Economics, both from University of Maryland College Park in the United States, and a Bachelor degree in Engineering Mechanics from Tsinghua University, PRC.

**Mr. GAN Tian** is currently a Managing Director and the Chief Investment Officer of the Manager. Mr. Gan joined ChinaAMC in 2008 as a portfolio manager. Before joining ChinaAMC, Mr Gan has worked in GuotaiJunAn Securities and GuotaiJunan 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 China.



**Ms. LI Yimei** is currently the General Manager of China Asset Management Co., Ltd. and the Director of China Asset Management (Hong Kong) Limited, and she also acts as a Director of E-Capital Transfer Co., Ltd concurrently. Ms. Li previously worked as the Deputy General Manager, General Manager of Fund Marketing Department, Director of Sales and Director of Marketing of China Asset Management Co., Ltd. and the Executive Director and General Manager of Shanghai China Wealth Management Company Limited. 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.

**Mr. LI Min** is currently a Managing Director and the Chairman of Investment Committee of the Manager. He has close to 25 years of working experience in China securities industry. 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 for 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 Trustee**

The Trustee of the Trust is Cititrust Limited, which is a registered trust company in Hong Kong. Cititrust Limited is a wholly-owned subsidiary of Citigroup Inc. ("Citigroup"). As a global financial services group, Citigroup and its subsidiaries provide a broad range of financial products and services, including consumer banking, corporate and investment banking, securities brokerage and wealth management to consumers, corporations, governments and institutions.

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust and the Sub-Fund, subject to the provisions of the Trust Deed.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee, agent or delegate, all or any of the investments, assets or other property comprised in the Trust Fund or any of the sub-funds and may empower any such custodian, nominee, agent or delegate to appoint, with no objection in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, delegate, co-custodian and sub-custodian a "custodian"). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and monitoring of such custodians and (b) be satisfied that such custodians retained remain suitably qualified and competent on an ongoing basis to provide the relevant services to the Sub-Fund. The Trustee shall be liable for the acts and omissions of any custodian (including the Custodian and the PRC Custodian) which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee, but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any custodian which is not a Connected Person of the Trustee. The Trustee has appointed Citibank, N.A. (which also acts as the Trust's Administrator) as the Custodian of the Sub-Fund. The Custodian has appointed Citibank (China) Co., Limited as the PRC Custodian of the Sub-Fund.

The Trustee shall not be liable for: any act, omission, insolvency, liquidation or bankruptcy of Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised depository or clearing system which may from time to time be approved by the Trustee and the Manager.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or the Sub-Fund from and against any and all actions, proceedings, liabilities, costs, claims, damages, expenses, including all reasonable legal, professional and other similar expenses (other than those resulting from the fraud, negligence or wilful default on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with the Trust or the Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of fraud, negligence or wilful

default by it or any agent, sub-custodian or delegate appointed by the Trustee, be liable for any losses, costs or damage to the Trust, the Sub-Fund or any Unitholder.

The Trustee in no way acts as guarantor or offeror of the Units or any underlying investment. The Trustee has no responsibility or authority to make investment decisions, or render investment advice with respect to the Trust or the Sub-Fund, which is the sole responsibility of the Manager.

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

The Trustee is entitled to the fees set out below under the section on “Fees and Expenses Payable by the Sub-Fund” and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or the Sub-Fund and the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as expressly stated in this Prospectus and/or required by the Code, neither the Trustee nor any of its employees, service providers or agents are or will be involved in the business affairs, organisation, sponsorship or investment management of the Trust or the Sub-Fund, and they are not responsible for the preparation or issue of this Prospectus other than the description under the section on “The Trustee”.

Since the Sub-Fund invests directly into the PRC’s securities markets pursuant to the RQFII regime, the Trustee has put in place proper arrangements to ensure that:

- (a) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including onshore PRC assets which will be maintained by the PRC Custodian in electronic form via a securities account with the CSDCC and any assets deposited in a cash account with the PRC Custodian (“Onshore PRC Assets”), and holds the same in trust for the relevant Unitholders;
- (b) cash and registrable assets of the Sub-Fund, including Onshore PRC Assets, are registered in the name of or to the order of the Trustee; and
- (c) the PRC Custodian will look to the Trustee for instructions and solely act in accordance with the Trustee’s instructions as provided under the PRC RQFII Agreement.

### **The Custodian**

The Trustee has appointed Citibank, N.A. (which also acts as the Administrator) as the Custodian of the Sub-Fund.

The Custodian has been a provider of custodial and settlement services to domestic and international clients since its establishment in the United States of America in 1814. The Custodian’s global custodial network covers all mature and major emerging markets. The Custodian began offering securities services in Hong Kong in the mid-1970s and developed a full-blown capability by the mid 1980s.

### **The PRC Custodian**

Citibank (China) Co., Limited has been appointed by the Custodian to act as PRC Custodian responsible for the safe custody of the assets managed by the Manager within the PRC under the RQFII scheme in accordance with the PRC Custody Agreement and the PRC RQFII Agreement.

The PRC Custodian is not responsible for the preparation of this Prospectus and accepts no responsibility for the information contained here other than the description under the section “The PRC Custodian”.

## **The Registrar**

Computershare Hong Kong Investor Services Limited acts as the registrar of the Sub-Fund under the terms of the Trust Deed. The registrar provides services in respect of the establishment and maintenance of the Register of the Unitholders of the Sub-Fund.

## **The Service Agent**

HK Conversion Agency Services Limited acts as Service Agent under the terms of the Service Agreement entered into among Manager, the Trustee, the Registrar, the Participating Dealer, the Service Agent, the PD Agent (where applicable), and HKSCC. The Service Agent performs, through HKSCC, certain of its services in connection with the creation and redemption of Units in the Sub-Fund by Participating Dealers.

## **The Auditor**

The Manager has appointed Ernst & Young to act as the auditor of the Trust and the Sub-Fund (the "Auditor"). The Auditor is independent of the Manager and the Trustee.

## **The Participating Dealers**

A Participating Dealer may act for its own account or for your account as its clients in making cash Creation Applications and cash Redemption Applications. The latest list of the Participating Dealers is available at <http://etf.chinaamc.com.hk/HKen/CSI300> (the contents of which has not been reviewed by the SFC).

## **The Market Makers**

A Market Maker is a broker or dealer permitted by the SEHK to make a market for the Units in the secondary market and whose obligations include quoting bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for the Units on the SEHK. Market Makers facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required, in accordance with the market making requirements of the SEHK.

Subject to applicable regulatory requirements, the Manager will use its best endeavours to put in place arrangements so that there is at all times at least one Market Maker for the Sub-Fund for Units traded in RMB and one Market Maker for Units traded in HKD and one Market Maker for Units traded in RMB. If the SEHK withdraws its permit to the existing Market Maker(s), the Manager will use its best endeavours to put in place arrangements so that there is at least one other Market Maker to facilitate the efficient trading of Units in RMB and one other Market Maker to facilitate the efficient trading of Units in Hong Kong dollars. The Manager will seek to use its best endeavors to put in place arrangements so that at least one Market Maker per counter is required to give not less than 3 months' prior notice to terminate market making under the relevant market making agreement.

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

The Manager and the Trustee may, from time to time, act as manager, sub-investment manager, investment delegate, trustee or custodian or in such other capacity in connection with any collective investment scheme separate and distinct from the Trust and the 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 the Sub-Fund as agent for the Trustee.
- (b) The Trustee, the Manager and any of their Connected Persons may contract or enter into any financial, banking or other transaction with one another or with any Unitholder or any

company or body any of whose shares or securities form part of the Sub-Fund's assets.

- (c) The Trustee or the Manager or any of their Connected Persons may become the owner of Units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee or the Manager or any of their Connected Persons.
- (d) The Trustee, 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 the Sub-Fund.
- (e) Any arrangements for the borrowing or deposit of any monies for the account of the Sub-Fund may be made with any of the Trustee, 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 size and duration, in the same currency and with institutions of similar standing.
- (f) Neither the Trustee nor the Manager nor any of their Connected Persons shall be liable to account to each other or to the Sub-Fund or to the Unitholders 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 Trustee, the Manager or any of their Connected Persons may, in the course of business, have potential conflicts of interest with the Sub-Fund. Each will, at all times, have regard in such event to its obligations to the Sub-Fund and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly.

Subject to applicable rules and regulations, the Manager, its delegate or any of its Connected Persons may enter into portfolio transactions for or with the 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 the Sub-Fund in shares or units 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 shares or units 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, investment delegate or any of their Connected Persons shall retain any cash commission rebates or other payment or benefit (except as otherwise provided for in this Prospectus or in the Trust Deed) received from a third party (either directly or indirectly) arising out of the sale or purchase or loan of investments for the 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, investment delegate or any of their Connected Persons may receive, and are entitled to retain, research products and services (known as soft dollar benefits) which are of demonstrable benefit to the Sub-Fund (as may be permitted under the 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 and brokerage rates are not in excess of customary institutional full-service brokerage rates, adequate prior disclosure is made in this Prospectus that the Unitholders have consented and periodic disclosure is made in the Sub-Fund's annual financial report in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegate, including a description of the goods and services retained by them, and the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer.

The services of the Trustee provided to the Trust and the Sub-Fund are not deemed to be exclusive and the Trustee shall be free to render similar services to others so long as its services hereunder are not impaired thereby and to retain for its own use and benefit all fees and other monies payable thereby and the Trustee shall not be deemed to be affected with notice of or to be under any duty to disclose to the Sub-Fund any fact or thing which comes to the notice of the Trustee in the course of the Trustee 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 Trust Deed.

Conflicts of interest may also arise due to the widespread business operations of the Trustee, the Manager, the Registrar and the Service Agent 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 Trust Deed, be liable to account for any profit, commission or other remuneration arising. However, all transactions carried out by or on behalf of the Sub-Fund will be on arm's length terms and in the best interests of Unitholders. In particular, any transactions between the Sub-Fund and the Manager, its investment delegate or any of their Connected Person(s) as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Sub-Fund's annual report.

For so long as the Sub-Fund is authorised by the SFC and it is an applicable requirement of the Code, the Manager, if transacting with brokers or dealers connected to the Manager, investment delegates 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 report of the Sub-Fund.

## STATUTORY AND GENERAL INFORMATION

### Financial Reports

The financial year-end of the Trust and the Sub-Fund is 31 December every year, commencing on December 2012. Audited financial reports are to be prepared (according to IFRS) and published on the Manager's website within 4 months of each financial year-end. Half-yearly unaudited financial reports are also to be prepared up to the last Dealing Day in June of each year and published on the Manager's website within 2 months of such date. Once these financial reports are made available on the Manager's website, investors will be notified within the relevant timeframe.

The first audited financial reports and the first half-yearly unaudited financial reports were for the year end December 2012 and half year June 2013 respectively. The audited financial reports and the half-yearly unaudited financial reports of the Sub-Fund will be available in the English language only. Printed copies may be requested free of charge from the Manager by contacting it, as described below under "Notices".

The financial reports provide details of the assets of the Sub-Fund and the Manager's statement on transactions during the period under review (including a list of any constituent Securities of the Index, if any, that each accounts for more than 10% of the weighting of the Index as at the end of the relevant period and their respective weighting showing any limits adopted by the Sub-Fund have been complied with). The financial reports shall also provide a comparison of the Sub-Fund's performance and the actual Index performance over the relevant period and such other information as is required under the Code.

### Trust Deed

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

### Indemnities of the Trustee and Manager

The Trustee and the Manager benefit from various indemnities in the Trust Deed. Except as provided under the Trust Deed, the Trustee and the Manager shall be entitled to be indemnified out of, and have recourse to, the Trust Fund in respect of any action, costs, claims, damages, expenses or demands arising directly or indirectly from the proper performance of the Sub-Fund. Nothing in the Trust Deed may provide that either the Trustee or the Manager (as the case may be) shall be exempted from or enjoy any indemnity against any liability for breach of trust or any liability which by virtue of any rule of Hong Kong law would arise in respect of any negligence, fraud, default, breach of duty or trust of which either may be liable in relation to its duties.

### Modification of the Trust Deed

The Trustee and the Manager may agree to modify, alter or add to the provisions of the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification, alteration or addition (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee or the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Sub-Fund or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law) or (iii) is made to correct a manifest error. In all other cases, modifications, alterations and additions involving any material changes require the sanction of an extraordinary resolution of the Unitholders affected. The SFC must, where applicable, also give its prior approval to all amendments to the Trust Deed.

The Manager will notify affected Unitholders of the amendments as soon as practicable after they are made if such notification is required under the Code.

### **Name of the Trust and Sub-Fund**

Under the Trust Deed the Manager may, on notice to the Trustee, change the name of the Trust and the Sub-Fund, subject to the prior written approval of the SFC.

### **Meetings of Unitholders**

Proxies may be appointed. A Unitholder who is the holder of two or more Units may appoint more than one proxy to represent him and vote on his behalf at any meeting of the Unitholders. If a clearing house (or its nominee(s)), being a corporation, is a Unitholder, it may authorise such persons as it think fit to act as its representatives at any meeting of the Unitholders provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Units in respect of which each such representative is so authorised. Each person so authorised shall be deemed to have been duly authorised without further evidence of the facts and shall be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person were the registered Unitholder of the Units held by the clearing house (or its nominee(s)), including the right to vote individually on a poll.

### **Voting rights**

Unitholders' meetings may be convened by the Manager, by the Trustee or by Unitholders representing at least 10% of the Units in issue, on not less than 21 days' prior notice for any general meeting at which an extraordinary resolution is to be proposed and on not less than 14 days' prior notice for any general meeting at which an ordinary resolution is to be proposed.

These meetings may be used to modify the terms of the Trust Deed, including increasing the maximum fees payable to the service providers, removing the Manager or terminating the Sub-Fund at any time. Such amendments to the Trust Deed must be considered by Unitholders of at least 25% of the Units in issue and passed by a 75% majority of the votes cast.

Other matters that require an ordinary resolution being passed would be considered by Unitholders of at least 10% of the Units in issue and passed by a simple majority of 50% of the votes cast.

The Trust Deed contains provisions for the holding of separate meetings of Unitholders holding Units of different classes where only the interests of Unitholders of such class are affected.

### **Termination**

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

The Manager may terminate the Trust if: (i) after one year from the date of the Trust Deed, the aggregate Net Asset Value of all the Units in each Sub-Fund is less than RMB150 million; (ii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Trust and which renders the Trust illegal or in the good faith opinion of the Manager, makes it impracticable or inadvisable to continue the Trust; or (iii) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed.

The Manager may, in its absolute discretion, by notice in writing to the Trustee, terminate the Sub-Fund if: (i) after one year from the date of establishment of the Sub-Fund, the aggregate Net Asset Value of all the Units in the Sub-Fund is less than RMB150 million; (ii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; (iii) its Index is no longer available for benchmarking or if the Units of the Sub-Fund are no longer listed on the SEHK or any such other stock exchange from time to time determined by the Manager; (iv) at any time, the Sub-Fund ceases to have any Participating Dealer; or (v) the Manager is unable to implement its investment strategy. Further, the Unitholders may at any time authorise termination of the Trust or the Sub-Fund by extraordinary resolution.

The Trustee may, in its absolute discretion, by notice in writing to the Manager, terminate the Sub-Fund if: (i) the Trustee forms the opinion for good and sufficient reason that the Manager is incapable of performing its duties satisfactorily in respect of the Sub-Fund; (ii) the Trustee forms the opinion for good and sufficient reason that the Manager has failed to perform its duties satisfactorily in respect of the Sub-Fund or has done something calculated to bring the Sub-Fund into disrepute or that is harmful to the interests of Unitholders of the Sub-Fund; or (iii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Trustee makes it impracticable or inadvisable to continue the Sub-Fund.

Unless previously terminated as described above or under another provision in the Trust Deed, the Trust shall in any event terminate at the expiry of 80 years from the date of the Trust Deed.

Notice of the termination of the Trust or the Sub-Fund will be given to the Unitholders after the SFC has approved the notice. The notice will contain the reasons for the termination, the consequences to Unitholders of terminating the Trust or the Sub-Fund and the alternatives available to them, and any other information required by the Code. Any unclaimed proceeds or other monies held by the Trustee in the event of a termination may at the expiration of twelve calendar months from the date upon which the same became payable be paid into court.

### **Distribution policy**

The Manager intends to distribute income to Unitholders at least annually (usually in July) having regard to the Sub-Fund's net income after fees and costs. The Manager will make an announcement prior to any distribution in respect of the relevant distribution amount in RMB only.

Each Unitholder will receive distributions in RMB (whether holding RMB traded Units or HKD traded Units).

Distribution payment rates in respect of Units will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend or distribution policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions.

### **Inspection of documents**

Copies of the following documents are available for inspection free of charge at the offices of the Manager and copies thereof (other than (f)) may be purchased from the Manager at a reasonable price:

- (a) Trust Deed;
- (b) Registrar Agreement
- (c) PRC Custody Agreement;
- (d) Service Agreements;



- (e) Participation Agreements; and
- (f) The most recent annual financial report of the Trust and the Sub-Fund (if any) and the most recent interim financial report of the Trust and the Sub-Fund (if any).

## **Part XV of the SFO**

Part XV of the SFO sets out the Hong Kong disclosure of interests' regime applicable to Hong Kong listed companies. The regime does not apply to unit trusts that are listed on the SEHK like the Trust. Consequently, Unitholders are not obliged to disclose their interest in the Sub-Fund.

## **Anti-money laundering regulations**

As part of the Manager's, the Trustee's and the Participating Dealer's responsibility for the prevention of money laundering and to comply with all applicable laws to which the Manager, the Trustee, the Sub-Fund or the relevant Participating Dealer is subject, the Manager, the Registrar, the Trustee or the relevant Participating Dealer may require a detailed verification of an investor's identity and the source of payment of any applications for Units. Depending on the circumstances of each application, a detailed verification might not be required where:

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

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

## **Liquidity Risk Management**

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Sub-Funds and to ensure that the liquidity profile of the investments of the relevant Sub-Fund will facilitate compliance with such 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 the Sub-Funds. 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 stated under the section headed "Redemption of Units through Participating Dealers", 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 the Sub-Funds under normal and exceptional market conditions.

As a liquidity risk management tool, the Manager may limit the number of Units of a Sub-Fund redeemed on any Dealing Day to Units representing 10% (or such higher percentage as the Manager may determine in respect of the Sub-Fund) of the total number of Units in such a Sub-Fund then in issue (subject to the conditions under the section headed "Deferred Redemption").

## **Index license agreement**

The Manager has entered into a license agreement with China Securities Index Co., Ltd. The

term of the licence agreement commenced on 22 May 2012 and should remain in full force and effect for 3 years. The licence agreement should renew automatically for 2 year terms, subject to the terms of the licence agreement.

### **Material changes to the Index**

The SFC should be consulted on any events that may affect the acceptability of the Index. Significant events relating to the Index will be notified to the Unitholders as soon as practicable. These may include a change in the methodology/rules for compiling or calculating the Index, or a change in the objective or characteristics of the Index.

### **Replacement of Index**

The Manager reserves the right, with the prior approval of the SFC and provided that in its opinion the interests of the Unitholders would not be adversely affected, to replace the Index with another index in accordance with the provisions of the index licence agreement. The circumstances under which any such replacement might occur include but are not limited to the following events:

- (a) the Index ceasing to exist;
- (b) the licence to use the Index being terminated;
- (c) a new index becoming available that supersedes the existing Index;
- (d) a new index becoming available that is regarded as the market standard for investors in the particular market and/or would be regarded as more beneficial to the Unitholders than the existing Index;
- (e) investing in the Securities comprised within the Index becomes difficult;
- (f) the Index Provider increasing its licence fees to a level considered too high by the Manager;
- (g) the quality (including accuracy and availability of the data) of the Index having in the opinion of the Manager, deteriorated;
- (h) a significant modification of the formula or calculation method of the Index rendering that index unacceptable in the opinion of the Manager; and
- (i) the instruments and techniques used for efficient portfolio management not being available.

The Manager may change the name of the Sub-Fund if the Index changes or for any other reasons including if licence to use the Index is terminated. Any change to (i) the use by the Sub-Fund of the Index and/or (ii) the name of the Sub-Fund will be notified to investors.

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

The Manager will publish important news and information with respect to the Sub-Fund (including in respect of the Index), both in the English and in the Chinese languages, on the Manager's website at <http://etf.chinaamc.com.hk/HKen/CSI300> (the contents of which has not been reviewed by the SFC) including:

- (a) this Prospectus and the product key fact statement in respect of the Sub-Fund (as revised from time to time);
- (b) the latest annual and semi-annual financial reports (in English only);
- (c) any notices for material alterations or additions to this Prospectus or the Sub-Fund's

constitutive documents;

- (d) any public announcements made by the Sub-Fund, including information with regard to the Sub-Fund and Index, notices of the suspension of the calculation of the Net Asset Value, changes in fees and the suspension and resumption of trading;
- (e) the tracking difference and tracking error of the Sub-Fund;
- (f) near real time indicative Net Asset Value per Unit throughout each Dealing Day in RMB and in HKD;
- (g) the last Net Asset Value of the Sub-Fund in RMB only and the last Net Asset Value per Unit in RMB and in HKD;
- (h) full portfolio information of the Sub-Fund (updated on a daily basis); and
- (i) the latest list of the Participating Dealers and Market Makers.

The near real time indicative Net Asset Value per Unit in HKD, under (e) above, is indicative and for reference only. This is updated during SEHK trading hours. The near real time indicative Net Asset Value per Unit in HKD does not use a real time HKD:RMB foreign exchange rate – it is calculated using the indicative Net Asset Value per Unit in RMB multiplied by an assumed foreign exchange rate using the Tokyo Composite 3:00 p.m. Tokyo time (2:00 p.m. Hong Kong time) mid rate quoted by Bloomberg for offshore RMB (CNH) on the previous SEHK trading day. Since the indicative Net Asset Value per Unit in RMB will not be updated when the underlying A-Share market is closed, the change to the indicative Net Asset Value per Unit in HKD (if any) during such period is solely due to the change in the foreign exchange rate. The last Net Asset Value per Unit in HKD, under (f) above, is indicative and for reference only and is calculated using the last Net Asset Value per Unit in RMB multiplied by an assumed foreign exchange rate using the Tokyo Composite 3:00 p.m. Tokyo time (2:00 p.m. Hong Kong time) mid rate quoted by Bloomberg for offshore RMB (CNH) as of the same Dealing Day.

Real-time updates about the Index can be obtained through other financial data vendors. It is your own responsibility to obtain additional and the latest updated information about the Index (including without limitation, a description of the way in which the Index is calculated, any change in the composition of the Index, any change in the method for compiling and calculating the Index) via the website <http://etf.chinaamc.com.hk/HKen/CSI300> or <http://www.csindex.com.cn> (the contents of which have not been reviewed by the SFC). Please refer to the section on “Website information” for the warning and the disclaimer regarding information contained in such website.

## Notices

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

### **Manager**

China Asset Management (Hong Kong) Limited  
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## Website information

The offer of the Units is made solely on the basis of information contained in this Prospectus. All references in this Prospectus to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this Prospectus. None of the Listing Agent, the Manager or the Trustee accepts any responsibility for ensuring that the information contained in such other websites and sources, if available, is accurate, complete

and/or up-to-date, and no liability is accepted by the Listing Agent, the Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager, its website <http://etf.chinaamc.com.hk/HKen/CSI300>. The information and materials included in these websites have not been reviewed by the SFC or any regulatory body. You should exercise an appropriate degree of caution when assessing the value of such information.

## TAXATION

*The following summary of Hong Kong and PRC taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong or PRC and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong or PRC at the date of this Prospectus. 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 Prospectus. Furthermore, tax laws can be subject to different interpretations and no assurance can be given that relevant tax authorities will not take a contrary position to the tax treatments described below.*

### **Hong Kong taxation**

#### *The Trust and Sub-Fund*

As the Trust and the Sub-Fund have been authorised as a collective investment scheme by the SFC under Section 104 of the SFO, profits of the Trust and the Sub-Fund arising from the sale or disposal of Securities, net investment income received by or accruing to the Trust and other profits of the Trust are exempt from Hong Kong profits tax.

Under a remission order issued by the Secretary for the Treasury on 20 October 1999, any Hong Kong stamp duty on the transfer of Securities to the Trust by a Participating Dealer by a Creation Application will be remitted or refunded. Similarly, Hong Kong stamp duty on the transfer of Securities by the Trust to a Participating Dealer upon redemption of Units will also be remitted or refunded.

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

#### *The Unitholders*

Hong Kong profits tax is not payable by a Unitholder (other than Unitholders carrying on a trade, profession or business of investing in Securities in Hong Kong) on any gains or profits made on the sale, redemption or other disposal of the Units and on any distributions made by the Trust. In accordance with the practice of the Inland Revenue Department of Hong Kong (as at the date of this Prospectus) tax should not be payable in Hong Kong in respect of distributions payable to Unitholders.

Approval has been given for remission or refund in full of stamp duty payable or paid in respect of any contract notes or instruments of transfer relating to transactions in all Units (both RMB traded and HKD traded Units).

Investors pay no Hong Kong ad valorem stamp duty when the Sub-Fund issues or redeems Units.

### **Hong Kong requirements regarding tax reporting**

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information ("AEOI"). The Ordinance requires Financial Institutions ("FI") in Hong Kong to collect Unitholders' information from 1 January 2017 and to file such information of Unitholders residing in jurisdictions which signed a Competent Authority Agreement ("CAA") with Hong Kong (collectively "Reportable Jurisdictions") with the Hong Kong Inland Revenue Department ("IRD") annually commencing from the year 2018. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has a CAA; however, the Sub-Fund and/or its agents may further collect information and/or documentation relating to

the tax residents of other jurisdictions.

The Trust is a collective investment scheme within the definition set out in the Securities and Futures Ordinance that is resident in Hong Kong, and is accordingly an investment entity with obligations to comply with the requirements of the Ordinance. This means that the Trust and/or its agents shall collect and provide to the IRD tax information relating to Unitholders and prospective investors.

The Ordinance requires the Trust to, amongst other things: (i) register the Trust's status as a "Reporting Financial Institution" with the IRD; (ii) conduct due diligence on its accounts to identify whether any such accounts are considered "Reportable Accounts" under the Ordinance; and (iii) report to the IRD the required information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the information reported to it to the government authorities of the Reportable Jurisdictions. Broadly, the Ordinance contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident(s) in a Reportable Jurisdiction(s); and (ii) certain entities controlled by individuals who are tax resident(s) in the Reportable Jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, date of birth, place of birth (optional), mailing and permanent address, tax residence(s), tax identification number(s) (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities of the Reportable Jurisdictions.

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

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

### **PRC taxation**

By investing in securities (including A-Shares) issued by PRC tax resident enterprises, irrespective of whether such securities are issued or distributed onshore ("onshore PRC securities") or offshore ("offshore PRC securities", and together with onshore PRC securities, the "PRC Securities"), the Sub-Fund may be subject to PRC taxes.

#### *Corporate Income Tax*

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

The Manager and the Trustee intend to manage and operate the Trust and the Sub-Fund in such a manner that the Trust and the Sub-Fund should not be treated as tax resident enterprises of the PRC or non-tax resident enterprises with an establishment or place of business in the PRC for CIT purposes, although this cannot be guaranteed.

Unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties, non-tax resident enterprises without PE in the PRC are subject to CIT on

a withholding basis (“WIT”), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income. PRC sourced passive income (such as dividend income or interest income) may arise from investments in the PRC Securities. The entity distributing such dividends is required to withhold such tax. Accordingly, the Trust or the Sub-Fund may be subject to WIT and/or other PRC taxes on any cash dividends, distributions and interest it receives from its investment in PRC Securities. Under the PRC CIT Law, interests derived from government bonds are exempt from PRC WIT.

Under current regulations in the PRC, foreign investors (such as the Trust and the Sub-Fund) may invest in onshore PRC securities, generally, only through a QFII or a RQFII (in this section and for the Sub-Fund referred to as the “relevant RQFII”). Since only the relevant RQFII’s interests in onshore PRC securities are recognised under PRC laws, any tax liability would, if it arises, be payable by the relevant RQFII. However under the terms of the arrangement between the relevant RQFII and the Trust, the relevant RQFII will pass on any tax liability to the Trust for the account of the Sub-Fund. As such, the Trust is the ultimate party which bears the risks relating to any PRC taxes which are so levied by the relevant PRC tax authority. Under current PRC tax laws and regulations, a relevant RQFII is subject to a WIT of 10% on cash dividends, distributions and interest from the PRC securities unless exempt or reduced under current PRC tax laws and regulations or relevant tax treaties.

Under the China-HK Arrangements, the tax charged on interests received by the non-resident holders of debt instruments (including enterprises and individuals) will be 7% of the gross amount of the interest, if Hong Kong tax residents are the beneficial owners under the China-HK Arrangements.

As the Sub-Fund seeks to achieve its investment objective by investing through the Manager’s (which is a Hong Kong tax resident) RQFII status, the interest derived from such investment may be subject to the reduced tax rate of 7% under the China-HK Arrangements. In order to qualify for this preferential rate, assessment from the PRC tax authority is required. The Manager will further assess and submit the relevant documents to the PRC tax authorities for assessment in relation to the Sub-Fund, although this cannot be guaranteed. If the preferential rate could not be applied, the general rate of 10% will be applicable to the Sub-Fund on interest.

Also pursuant to the China-HK Arrangements, the tax charged on dividends received by the non-resident holders of shares issued by Chinese resident companies will be 5% of the gross amount of the dividends, if Hong Kong tax residents are the beneficial owners and directly hold at least 25% of the equity of the company paying the dividends. Due to the Sub-Fund’s investment restriction, the Sub-Fund will not hold more than 10% of any ordinary shares issued by any single issuer. In this connection, dividends derived from A-Shares invested through RQFII will not be able to benefit from the reduced tax rate of 5% and the general tax rate of 10% will be applicable to the Sub-Fund.

The Ministry of Finance (“MOF”), the SAT and the CSRC have jointly issued a circular concerning the tax treatment for the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81 – The Circular Concerning the Tax Treatment for the Pilot Program of the Shanghai-Hong Kong Stock Connect) (“Notice No. 81”) and a circular concerning the tax treatment for the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127 – The Circular Concerning the Tax Treatment for the Pilot Program of the Shenzhen-Hong Kong Stock Connect) (“Notice No. 127”). Pursuant to Notice No. 81 and Notice No. 127, dividends received by Hong Kong and overseas investors (including the Sub-Fund) from A-Shares investment via the Stock Connect will be subject to 10% WIT and the company distributing the dividend has the withholding obligation. If the recipient of the dividend is entitled to a lower treaty rate, it can apply to the tax bureau in-charge of the payer for a refund.

### *Capital gains*

#### *Stock Connect*

Pursuant to Notice No. 81 and Notice No. 127, PRC corporate income tax will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-Shares through the Stock Connect.

## RQFII

The “Notice on the issues of temporary exemption from the imposition of corporate income tax arising from capital gains from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII” (Caishui [2014] No.79) promulgated by the MOF, the SAT and the CSRC on 14 November 2014 (the “Notice No. 79”) states that (i) PRC corporate income tax will be imposed on gains obtained by QFII and RQFII from equity investment assets (including PRC domestic stocks) derived prior to 17 November 2014 in accordance with laws; and (ii) QFIIs/RQFIIs will be temporarily exempt from corporate income tax on gains derived from the trading of A shares effective from 17 November 2014. Notice No. 79 applies to QFIIs/RQFIIs without an establishment or place of business in the PRC or having an establishment in the PRC but the income so derived in China is not effectively connected with such establishment.

Pursuant to the Notice No. 79, the Manager, having taken independent professional tax advice and acting in accordance with such advice, does not make WIT provision for gross realised or unrealised capital gains derived from trading of A-Shares via RQFII from 17 November 2014 onwards.

It is noted that the Notice No. 79 and the Notice No. 81 both state that the corporate income tax exemption effective from 17 November 2014 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the NAV of the Sub-Fund.

As for the gross realised capital gains derived from trading of A-Shares via RQFII before 17 November 2014, certain tax relief is applicable to Hong Kong tax residents under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “China-HK Arrangements”). One type of such relief under the China-HK Arrangements is that capital gains derived by a Hong Kong tax resident from transfer of shares of a PRC tax resident company would be taxed in the PRC only if:

- 50% or more of the PRC tax resident company’s assets are comprised, directly or indirectly, of immovable property situated in the PRC (an “land rich company”) or
- The Hong Kong tax resident holds at least 25% of the shares of the PRC tax resident company at any time within the 12 months before the alienation.

Given the fact that a RQFII is not allowed to hold more than 10% of the shares of a single issuer, it should not be subject to PRC WIT for the capital gains derived from trading of A-share unless the A-share company is a land rich company.

Pursuant to the relevant PRC tax regulations, to enjoy relief under the China-HK Arrangements, a Hong Kong tax resident should submit to the relevant PRC tax authority application documents (including a Hong Kong Tax Resident Certificate (a “HKTRC”) issued by the Inland Revenue Department of Hong Kong (the “IRD”)) for approval.

The Manager applied to the IRD on behalf of the Sub-Fund for the HKTRCs and obtained HKTRCs for the Sub-Fund for each calendar year since the Sub-Fund’s inception date to the calendar year ended 31 December 2014, except for the calendar year ended 31 December 2012 during which there was no realised gain.

At the request of the Shanghai tax authority, the Manager, as the RQFII of the Sub-Fund, fully submitted the requested information and documents on behalf of the Sub-Fund to the Shanghai tax authority in October 2015 to report the WIT payable on gross realised capital gains derived from trading of A-Shares issued by land rich companies and apply for WIT relief on gross realised capital gains derived from trading of A-Shares issued by non-land rich companies under the China-HK Arrangements. The HKTRCs for the Sub-Fund as described above was also submitted for the Shanghai tax authority’s approval for the eligibility of the Sub-Fund to benefit from the China-HK Arrangements.



The Shanghai tax authority indicated that it agreed to the Sub-Fund's tax treaty relief application submitted. As such, gross realised capital gains derived by the Sub-Fund from transfer of A-Shares prior to 17 November 2014, except for A-Shares issued by land rich companies, are eligible for WIT relief under China-HK Arrangements. Subsequently the Sub-Fund paid WIT on gross realised capital gains arising from the Sub-Fund's disposal of A-Shares issued by land rich companies for the period from the inception of the Sub-Fund up to and including 16 November 2014. As at the date of this Prospectus, no further tax provision is made on capital gains arising from the Sub-Fund's disposal of A-Shares during such period.

Unitholders should note that the aforesaid tax reporting and tax treaty relief application are made in accordance with the prevailing tax rules and practices of the Shanghai tax authority at the time of submission. The Net Asset Value of the Sub-Fund may require further adjustment to take into account any retrospective application of new tax regulations and development, including change in interpretation of the relevant regulations by the PRC tax authorities.

The PRC tax rules and practices in relation to RQFII and the Stock Connect are relatively new and may be subject to change. It should also be noted that there is a possibility of the PRC tax rules being changed and taxes being applied retrospectively. In view of the above uncertainties, investors should note that the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. If no provision is made by the Manager in relation to all or part of the actual tax levied by the SAT in future, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional amount of tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to those borne before the actual tax liabilities are levied.

Please refer to the risk factor "PRC withholding taxation risk" for further information in this regard.

#### *Business Tax ("BT") and other surtaxes*

The revised PRC Provisional Regulations of Business Tax ("BT Law") which came into effect on 1 January 2009 stipulates that gains derived by taxpayers from the trading of marketable securities would be subject to BT at 5%.

Caishui [2005] 155 states that gains derived by QFIIs from the trading of Chinese securities are exempt from BT. The new PRC BT law which came into effect on 1 January 2009 has not changed this exemption treatment at the time of this Prospectus. However, it is not clear whether a similar exemption would be extended to RQFIIs. Since both RQFIIs and QFIIs are qualified foreign institutional investors which are allowed to make investments in the PRC domestic capital markets, there should be a basis to apply the exemption treatment of Caishui [2005] 155 on RQFIIs.

However, for marketable securities other than those trading under QFIIs, the new BT law shall apply to levy BT at 5% on the difference between the selling and buying prices of those marketable securities. Where capital gains are derived from trading of offshore PRC securities (e.g. H-shares), BT in general is not imposed as the purchase and disposal are often concluded and completed outside China.

The BT law has not specifically stated that whether BT would be imposed on interest earned by non-financial institution from bond investments. Nevertheless, based on Guoshuifa [1993] 149 which states that purchase of financial products is not subject to BT, there should be a basis to treat the interest income derived from bonds held to coupon date/maturity as not under the scope of charge of BT.

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

If BT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of BT payable.

Notice No. 81 stipulates that PRC BT will be temporarily exempted on capital gains derived by foreign investors on the trading of China A-Shares through Shanghai-Hong Kong Stock Connect.

#### *PRC Value-added Tax ("VAT") and other Surtaxes*

With the Caishui [2016] No. 36 ("Notice No. 36") regarding the final stage of VAT reform coming into effect on 1 May 2016, gains derived from the trading of Chinese securities are subject to VAT instead of BT starting from 1 May 2016.

According to Notice No. 36 and Caishui [2016] No. 70 ("Notice No. 70"), gains derived by QFIIs and RQFIIs from the trading of onshore Chinese securities (including A-Shares and other PRC listed securities) are exempt from VAT since 1 May 2016. Notice No. 70 also states that the gains derived from investment in the PRC interbank local currency markets (including money market, bond market and derivatives market) by foreign investors, which are qualified by PBOC, are exempt from VAT since 1 May 2016.

Based on Notice No. 36 and Notice No. 127, the gains derived from transfer of A-Shares through the Shanghai-Hong Kong Stock Connect are exempt from VAT since 1 May 2016 and the gains derived from transfer of A-Shares through the Shenzhen-Hong Kong Stock Connect are exempt from VAT since 5 December 2016.

However, other than the VAT exemption in the paragraph above, Notice No. 36 shall apply to levy VAT at 6% on the difference between the selling and purchase prices in trading of those marketable securities.

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

If VAT is applicable, there are also other surtaxes (which include Urban Construction and Maintenance Tax, Education Surcharge and Local Education Surcharge) that would amount to as high as 12% of BT payable.

#### *Stamp duty*

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

According to Circular 127, the borrowing and return of shares in relation to shares guarantee and short-selling by Hong Kong market investors through the Stock Connects are exempt from SD since 5 December 2016.

It should also be noted that the actual applicable tax rates imposed by SAT may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may suffer more than the tax provision amount as the Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be

disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before 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 and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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

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

The Investment Manager reserves the right to make tax provision for any tax liabilities arising from the income derived from the Indirect PRC investments. While a tax provision on capital gains is made by the Investment Manager in respect of the income from Indirect PRC investments, the level of provision may be inadequate to meet actual PRC tax liabilities on investments made by the Sub-Fund. Consequently, Shareholders may be disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Shares. If the actual tax levied is higher than that provided for by the Investment Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. 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, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Shares before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

#### FATCA and compliance with US withholding requirements

The United States and Hong Kong government have entered into Model 2 IGA on 13 November 2014. The Model 2 IGA modifies the foregoing requirements but generally requires Hong Kong Foreign Financial Institutions ("FFI") to register with the IRS comply with the terms of FFI Agreement. As a result of the Model 2 IGA, FFIs in Hong Kong complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments made to non-consenting accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the IRS) or close those non-consenting accounts (provided that information regarding such non-consenting account holder is reported to the IRS pursuant to the provisions of the Model 2 IGA). Such FFIs, however, may be required to withhold tax on payments made to non-complaint FFIs.

Payments, include but are not limited to, dividends and interest from securities of U.S. issuers and gross proceeds from the sale of such securities. The payments may be subject to FATCA withholding, unless the recipient of the payment satisfies certain requirements intended to enable the IRS to identify certain United States persons with interests in such payments. To avoid such FATCA withholding on certain payments made to it, a FFI will generally be required to enter into an agreement (an "FFI Agreement") with the IRS under which it will agree to identify its direct or indirect owners who are U.S. persons and report certain information concerning such U.S. person owners to the IRS.

The Sub-Fund has registered with the IRS as a participating FFI and have obtained a Global Intermediary Identification Number ("GIIN") of RULWM4.99999.SL.344. In order to protect Unitholders and avoid being subject to withholding under FATCA, it is the Manager's and the

Trustee's intention to endeavour to satisfy the requirements imposed under FATCA. Hence it is possible that this may require the Sub-Fund (through its agents or service providers) as far as legally permitted, to report information on the holdings or investment returns of any Unitholder to the IRS or the local authorities pursuant to the terms of an applicable IGA (as the case may be) and to require the compulsory redemption of Unitholders who fail to provide the information and documents required to identify their status, or who are non-FATCA compliant financial institutions or who fall within other categories specified in the FATCA provisions and regulations. In any event, the Manager shall comply with personal data protection principles, and requirements as set out in the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) and all other applicable regulations and rules governing personal data use in Hong Kong from time to time.

The Manager has obtained competent tax advice confirming that the Trust does not need to be registered with the IRS and that the registration of the Products with the IRS satisfies the FATCA requirements.

Although the Trust and the Sub-Fund will endeavour to satisfy any obligations imposed on them to avoid the imposition of FATCA withholding tax, no assurance can be given that the Trust and the Sub-Fund will be able to fully satisfy these obligations. If the Sub-Fund becomes subject to a withholding tax as a result of FATCA, the Net Asset Value may be adversely affected and the Sub-Fund and Unitholders 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 Trust and the Sub-Fund are still uncertain. Withholding may apply to withholdable payments covered by FATCA if the Trust and each Product cannot satisfy the applicable requirements and is determined to be non compliant with FATCA 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 IGAs, all of which are subject to change or may be implemented in a materially different form. Nothing in this section constitutes or purports to constitute tax advice and Unitholders should not rely on any information set out in this section for the purposes of making any investment decision, tax decision or otherwise. All Unitholders should therefore consult their own tax and professional advisors regarding the FATCA requirements, possible implications and related tax consequences with respect to their own situation. In particular, Unitholders who hold their Units through intermediaries should confirm the FATCA compliance status of those intermediaries to ensure that they do not suffer the above mentioned withholding tax on their investment returns.

## SCHEDULE 1

### INVESTMENT RESTRICTIONS, SECURITY LENDING AND BORROWING

#### Investment restrictions

If any of the restrictions or limitations set out in this Schedule 1 is breached in respect of the Sub-Fund, the Manager will make it a priority objective to take all necessary steps within a reasonable period to remedy the situation, taking due account of the interests of the Unitholders of the Sub-Fund.

The Trustee will take reasonable care to ensure compliance with the investment and borrowing limitations set out in the constitutive documents and the conditions under which the Sub-Fund was authorised.

The investment restrictions applicable to the Sub-Fund that are included in the Trust Deed are summarised below:

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other Public Securities) through the following 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 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;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the 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) unless otherwise approved by the SFC, 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 the 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 sub-paragraph (3), 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 any single entity (other than Government and other Public Securities) held for the account of the Sub-Fund, when aggregated with other ordinary shares of the same entity held for the account of all other sub-funds under the Trust collectively may not exceed 10% of the nominal amount of the ordinary shares issued by 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), where direct investment by the Sub-Fund in a market is not in the best interests of investors, the 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 Code;
  - (2) any increase in the overall fees and charges directly or indirectly borne by the Unitholders or the Sub-Fund as a result must be clearly disclosed in the Prospectus; and
  - (3) the Sub-Fund must produce the reports required by the 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), not more than 30% of the total Net Asset Value of the Sub-Fund may be invested in Government and other Public Securities of the same issue. However, as the Sub-Fund 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), the Sub-Fund may fully invest in Government and other Public Securities in at least six different issues. Subject to the approval of the SFC, the Sub-Fund which has been authorised by the SFC as an index fund may exceed the 30% limit in (g) and 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 Code; or
  - (2) listed and regularly traded on internationally recognised stock exchanges open to the public (nominal listing not accepted) and (i) the principal objective of which is to track, replicate or correspond to a financial index or benchmark, which complies with the applicable requirements under Chapter 8.6 of the Code; or (ii) the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

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

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

(k) where the Sub-Fund invests in shares or units 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 Prospectus of the Sub-Fund,

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

- (i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme's objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);
  - (ii) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;
  - (iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);
  - (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) the 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 Prospectus 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 underlying master fund must be clearly disclosed;
- (3) unless otherwise approved by the SFC, no increase in the overall total of initial charges, redemption charges, Manager's annual fee, or any other costs and charges payable to the Manager or any of its Connected Persons borne by the Unitholders 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 Manager or by its Connected Person; and
- (4) notwithstanding paragraph (k)(iii) 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) as 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.

The Manager shall not on behalf of the Sub-Fund:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or the directors and officers of the Manager collectively own more than 5% of those securities;
- (B) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)). In the case of investments in such shares and REITs, they shall comply with the relevant investment restrictions and limitations set out in Chapter 7.1, 7.1A, 7.2, 7.3 and 7.11 of the Code, where applicable. For the avoidance of doubt, where investments are made in listed REITs, Chapters 7.1, 7.1A and 7.2, apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then Chapters 7.3 and 7.11 apply respectively;
- (C) 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, the Sub-Fund 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;
- (D) 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;
- (E) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (F) enter into any obligation in respect 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



- (G) 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 transactions in FDIs for the purposes of Chapters 7.29 and 7.30 of the Code

*Note:* The investment restrictions set out above apply to the Sub-Fund, subject to the following: A collective investment scheme authorised by the SFC under the Code is usually restricted under Chapter 7.1 of the Code from making investments which would result in the value of that collective investment scheme's holdings of the Securities of any single entity exceeding 10% of the collective investment scheme's total net asset value. For the Sub-Fund which is authorised under Chapter 8.6 of the Code as an index-tracking ETF, given the investment objective of the Sub-Fund and nature of the Index, the Sub-Fund is allowed under Chapter 8.6(h) of the Code to, notwithstanding Chapter 7.1 of the Code, hold investments in constituent Securities of any single entity exceeding 10% of the Sub-Fund's total Net Asset Value if such constituent Securities account for more than 10% of the weighting of the Index and the Sub-Fund's holding of any such constituent Securities does not exceed their respective weightings in the Index, except where the weightings are exceeded as a result of changes in the composition of the Index and the excess is only transitional and temporary in nature.

However, the restrictions in 8.6(h)(i) and (ii) (as described above) do not apply if:

- (a) the Sub-Fund adopts a representative sampling strategy which does not involve full replication of the constituent Securities of the Index in the exact weightings of such Index;
- (b) the strategy is clearly disclosed in the Prospectus;
- (c) the excess of the weightings of the constituent Securities held by the Sub-Fund over the weightings in the Index is caused by the implementation of the representative sampling strategy;
- (d) any excess weightings of the Sub-Fund's holdings over the weightings in the Index must be subject to a maximum limit reasonably determined by the Sub-Fund after consultation with the SFC. In determining this limit, the Sub-Fund must consider the characteristics of the underlying constituent Securities, their weightings and the investment objectives of the Index and any other suitable factors;
- (e) limits laid down by the Sub-Fund pursuant to the point above must be disclosed in the Prospectus;
- (f) disclosure must be made in Sub-Fund's interim and annual reports as to whether the limits imposed by the Sub-Fund itself pursuant to the above point (d) have been complied with in full. If there is non-compliance with the said limits during the relevant reporting period, this must be reported to the SFC on a timely basis and an account for such non-compliance should be stated in the report relating to the period in which the non-compliance occurs or otherwise notified to investors.

### **Securities Financing Transactions**

According to the Trust Deed, the Sub-Fund may enter into securities lending transactions, sale and repurchase transactions and reverse repurchase transactions ("securities financing transactions"), provided that they are in the best interests of the Unitholders, the associated risks have been properly mitigated and addressed, and the counterparties to the securities financing transactions are financial institutions which are subject to ongoing prudential regulation and supervision.

Where the Sub-Fund engages in securities financing transactions, it 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.

There is no current intention for the Sub-Fund to engage in securities financing transactions, but this may change in light of market circumstances and where the Sub-Fund intends to engage in these types of transactions, prior approval shall be obtained from the SFC (if required) and no less than one month's prior notice will be given to the Unitholders. If this is the case, the details of the Manager's policy in relation to securities financing transactions will be disclosed in the Prospectus in accordance with the Code.

### **Financial Derivative Instruments**

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

Where indicated in this Prospectus, the Sub-Fund may acquire FDIs for hedging purpose. The FDIs shall meet all of the following criteria to be considered as being acquired for hedging purposes:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;
- (c) although they may not necessarily reference to the same underlying assets, they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they exhibit price movements with high negative correlation with the investments being hedged under normal market conditions. Hedging arrangement should be adjusted or re-positioned, where necessary and with due consideration on the fees, expenses and costs, to enable the Sub-Fund to meet its hedging objective in stressed or extreme market conditions.

Unless otherwise stated in the Prospectus, the Sub-Fund may also 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 (unless otherwise approved by the SFC for the Sub-Fund pursuant to Chapter 8.8 or Chapter 8.9 of the Code). For the avoidance of doubt:

- (a) for the purpose of calculating net derivative exposure, the positions of FDIs acquired by the 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 position;
- (b) the net derivative exposure should be calculated in accordance with the requirements and guidance issued by the SFC which may be updated from time to time; and
- (c) FDIs acquired for hedging purposes will not be counted towards the 50% limit referred to in

this paragraph so long as there is no residual derivative exposure arising from such hedging arrangement.

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

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

- (A) the underlying assets consist solely of shares in companies, debt Securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates 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 Product 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 sub-paragraphs (a), (b), (c) and (g) under the section headed "Investment Restrictions" of the Code provided that the relevant Index is in compliance with Chapter 8.6(e) of the 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 entitled "Investment 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 such Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs 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 Trustee 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.

The 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 the purposes herein, 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 the Sub-Fund should also be covered as follows:

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

- in the case of FDI transactions which will, or may at the counterparty's discretion, require physical delivery of the underlying assets, the 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.

The above policies relating to FDIs apply to financial instruments which embeds a financial derivative as well. For the purposes herein, an "embedded financial derivative" is a financial derivative instrument that is embedded in another security.

## **Collateral**

Collateral received from counterparties shall comply with the following requirements:

- Liquidity – collateral must be sufficiently liquid and tradable in order that it can be sold quickly at a robust price that is close to pre-sale valuation. Collateral should normally trade in a deep and liquid marketplace with transparent pricing;
- 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. For the avoidance of doubt 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 Code;
- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs in such a way that it would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs, 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 must have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Re-investment of collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements

of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

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:

- i. the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2(f) and Chapter 8.2(n) of the Code;
  - 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.
- Encumbrances - 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) securitised products; or (iv) unlisted collective investment schemes.

There is no current intention for the Sub-Fund to receive any collateral in view of the current strategy, but 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 the Prospectus in accordance with the Code.

### **Borrowing policy**

Borrowing against the assets of the Sub-Fund is allowed up to a maximum of 10% of its total Net Asset Value. Securities lending transactions and sale and repurchase transactions in compliance with the requirements as set under the section entitled “Securities Financing Transactions” above are not subject to the borrowing restrictions under this section.

The Trustee may on instruction of the Manager borrow for the account of the Sub-Fund any currency, and charge or pledge assets of the Sub-Fund, for the following purposes:

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

## SCHEDULE 2

### INDEX AND DISCLAIMER

#### General information on the Index

The Index is a free float adjusted, category-weighted index which measures the performance of A-Shares traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. The Index consists of the 300 stocks with the largest market capitalisation and good liquidity from the entire universe of listed A-Shares companies in the PRC. The Index is calculated and disseminated in RMB on a real-time basis and is maintained by China Securities Index Co., Ltd. (“CSI” or the “Index Provider”). The Index is quoted in RMB.

The Index is a price return index. A price return index calculates the performance of the Index constituents on the basis that any dividends or distributions are not reinvested.

The Index was launched on 8 April 2005 and had a base level of 1,000 on 31 December 2004.

As of 8 November 2019, the Index had a total free-float market capitalisation of RMB 12.91 trillion and 300 constituents.

#### Index calculation

The Index is calculated and disseminated in RMB on a real-time basis and is maintained by the Index Provider, a joint-venture established on 25 August 2005 between the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which specialises in the management of securities indices and the provision of related services.

The Manager (and each of its Connected Persons) is independent of CSI.

#### Index calculation method

The Index is weighted by adjusted capital stock and calculated using the Paasche weighted composite price index formula. The adjusted capital stock is obtained using the classification and rounding off method, as shown in the following table:

Negotiable Market Cap Ratio (%)	≤15	(15 , 20]	(20 , 30]	(30 , 40]	(40 , 50]	(50 , 60]	(60 , 70]	(70 , 80]	>80
Inclusion Factor (%)	nearest higher percentage point	20	30	40	50	60	70	80	100

Examples: If the free-float proportion of a certain stock is 7%, which is less than 15%, the free-float proportion of the capital stock will be used as the weight. If the free-float proportion of a certain stock is 35%, which falls in the (30, 40] range, the weight will be 40% of the total capital stock.

Note: The term “free-float proportion” means the proportion of capital stock remaining after excluding the following non-negotiable shares from the total capital stock: (1) shares held on a long-term basis by the company’s founders, family members and senior management; (2) state-owned shares; (3) shares held by strategic investors; (4) frozen shares; (5) restricted employee shares; (6) cross-holdings, etc.

## Calculation formula

$$\text{Index for a given reporting period} = \frac{\text{adjusted market cap of constituents during reporting period}}{\text{base period}} \times 1000$$

Where: adjusted market cap =  $\sum$  (market price x adjusted number of shares of the constituent's capital stock)

## Index maintenance

The Index is maintained using the "divisor adjustment methodology." In the event of a change in the list of constituents or in a constituent's equity structure, or a change in the adjusted market capitalization of a constituent stock due to non-trading factors, the old divisor is adjusted by means of the divisor adjustment methodology, so as to maintain the continuity of the index. The adjustment formula is as follows:

$$\frac{\text{adjusted market cap before divisor adjustment}}{\text{old divisor}} = \frac{\text{adjusted market cap after divisor adjustment}}{\text{new divisor}}$$

Where: "adjusted market cap after divisor adjustment" = adjusted market cap before divisor adjustment + increase (decrease) in adjusted market capitalization. The new divisor (i.e. the adjusted divisor, also known as the new base period) is obtained from this formula and used to calculate the Index.

Circumstances under which maintenance of the Index is required include the following:

- (a) ex-right: whenever bonus shares or rights are issued for a constituent stock, the Index is adjusted the day before such issuance; adjusted market cap after divisor adjustment = ex-right quote x number of shares of capital stock after the stock started to trade ex-right + adjusted market cap before divisor adjustment (excluding ex-right shares);
- (b) suspension of trading: if a constituent stock is suspended from trading, its last trading price is used to calculate the Index, until trading is resumed;
- (c) other corporate events such as second offering or exercise of warrants:
  - (i) if the cumulative change of constituent shares is more than 5%, the Index is adjusted the day before the change; adjusted market cap after the adjustment = closing price x adjusted number of shares after the change;
  - (ii) if the cumulative change of constituent shares is less than 5%, the Index is adjusted in the next regular review; and
- (d) when there is a periodic adjustment or an ad hoc adjustment of the list of constituent stocks of the Index, the Index is adjusted prior to the date of the change.

## **Index Advisory Committee**

CSI has established an index advisory committee (the “Index Advisory Committee”), which is responsible for the evaluation, consulting and examination of CSI index methodologies.

## **Index Universe**

The selection universe of the Index (the “Index Universe”) includes all the A-Shares (each a “Stock”) listed on the Shanghai Stock Exchange (the Main Board) or the Shenzhen Stock Exchange (the Main Board, the SME Board (Small and Medium Enterprise Board) and ChiNext (the board mainly for hi-tech companies)) satisfying the following conditions:

- (a)
  - (i) a Stock listed on the Main Board of the Shanghai Stock Exchange or the Main Board or the SME Board of the Shenzhen Stock Exchange (the “Non-ChiNext Stock”) must have a listing history of more than three months unless the daily average total market value of the Stock since its initial listing is ranked within the top 30 of all Non-ChiNext Stocks; or
  - (ii) a Stock listed on the ChiNext of the Shenzhen Stock Exchange must have a listing history of more than three years; and
- (b) The Stock is not designated for special treatment or potential delisting by any of the CSRC, the Shanghai Stock Exchange or the Shenzhen Stock Exchange as a result of continuous financial losses.

## **Selection criteria**

Index constituents are selected as follows and the candidate constituents should have good performance without serious financial problems or laws and regulations breaking events and with no large price volatility that shows strong evidence of manipulated. CSI:

- (a) Calculates the A-Share daily average trading value and A-Share daily average total market value during the most recent year for stocks in the Index Universe, or in case of a new issue, during the fourth trading day that it was a public company;
- (b) Ranks the Stocks in the universe by A-Share daily average trading value of the most recent year in descending order and delete the bottom ranked 50% stocks;
- (c) Ranks the remaining stocks by A-Share daily average market value of the most recent year in descending order, those who rank top 300 are selected as Index constituents.

## **Index periodical review**

The constituents of the Index (each an “Index Constituent”) are reviewed every 6 months by the Index Advisory Committee, which usually meets in the end of May and November every year. The Index Constituents are adjusted according to the periodical review and any changes to the composition of the Index are implemented on the next trading day after market close of the second Friday of June and December each year.

The number of constituents adjusted at each periodical review will not exceed 10% and CSI has adopted buffer zone rules in order to minimize the Index turnover. Existing Index Constituents ranked in the top 60% by average daily trading value in the Index Universe will be included in the next stage to be ranked by daily average trading value. The top 240 Stocks (by decreasing order of free float market capitalisation) within the Selection Universe will be given priority to be selected as Index Constituents. Index Constituents ranking within the top 360 Stocks (by decreasing order of free float market capitalisation) will be given priority to remain in the Index.



## **Index adjustments**

Necessary adjustments are made by CSI when some corporate events happen so as to maintain the representativeness and investability of the Index. Such events include without limitation the bankruptcy, restructuring, merger, acquisition and spin-off, of an Index Constituent issuer and the delisting, temporary suspension from trading and re-issuance, of an Index Constituent.

In general, CSI will publicise Index Constituent adjustments lists as soon as practicable after the adjustments are decided and before their implementation.

## **Index constituents**

You can obtain the most updated list of the constituents of the Index, their respective weightings, additional information and other important news of the Index from the website of China Securities Index Co., Ltd at <http://www.csindex.com.cn> (the contents of which has not been reviewed by the SFC).

## **Index codes**

Shanghai Stock Exchange Quote System Code: 000300

Shenzhen Stock Exchange Quote System Code: 399300

Bloomberg Code: SHSZ300

Reuters Code: CSI300

## **Index Provider disclaimer**

The CSI 300 Index (“Index”) is compiled and calculated by China Securities Index Co., Ltd. (“CSI”). All copyright in the Index values and constituent list vest in CSI. CSI will apply all necessary means to ensure the accuracy of the Index. However, CSI does not guarantee its instantaneity, completeness or accuracy, nor shall it be liable (whether in negligence or otherwise) to any person for any error in the Index or under any obligation to advise any person of any error therein.