China Life Franklin Diversified Income Fund

Explanatory Memorandum

29 March 2021

Contents

The Manager and its directors accept full responsibility for the accuracy of the information contained in this Explanatory Memorandum and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omissions of which would make any statement misleading.

China Life Franklin Diversified Income Fund is an open-ended unit trust constituted under the laws of Hong Kong by the Trust Deed.

The Trust is authorised by the SFC under Section 104 of the Securities and Futures Ordinance. SFC authorisation is not a recommendation or endorsement of the Trust nor does it guarantee the commercial merits of the Trust or its performance. It does not mean the Trust is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors. In giving such authorisation the SFC does not take responsibility for the financial soundness of the Trust or for the correctness of any statements made or opinions expressed in this regard.

This Explanatory Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Persons interested in acquiring Units in the Trust should inform themselves as to:

(i) the legal requirements within the countries/regions of their nationality, residence, ordinary residence or domicile for such acquisition;

(ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition or sale of Units; and

(iii) any taxation consequences which might be relevant to the acquisition, holding or disposals of Units.

Distribution of this Explanatory Memorandum (including the product key facts) must be accompanied by a copy of the latest annual report and accounts of the Trust and, if later, a copy of its most recent semi-annual report, each of which will be deemed to form part of this Explanatory Memorandum.

The Units are offered on the basis of the information and representations contained in this Explanatory Memorandum (including the product key facts) and any accompanying financial information. Any further information given or representations made by any dealer, salesman or other person must not be relied upon as being authorised by the Trustee or the Manager. No person has been authorised to give any information or to make any representation other than those contained in this Explanatory Memorandum (including the product key facts). Neither the delivery of this Explanatory Memorandum (including the product key facts) nor the issue of Units will under any circumstances create any implication that there has been no change in the affairs of the Trust since the date of this Explanatory Memorandum.

The Units have not been and will not be registered under the 1933 Act or under the securities laws of any state or other political subdivision of the United States and may not be offered, sold, transferred or delivered, directly or indirectly, in the United States. Neither the United States Securities and Exchange Commission nor any state or other regulatory agency in the United States has passed upon the Units or the adequacy or accuracy of this Explanatory Memorandum. The Trust is not and will not be registered under the 1940 Act. Units may not be resold except pursuant to an exemption from (such as in accordance with Rule 144A, if available), or in a transaction not subject to, the registration requirements of the 1933 Act.

The offering of Units is being made outside the United States in accordance with Regulation S under the 1933 Act. The Trust has not offered, sold or delivered and will not offer, sell or deliver directly or indirectly any Units in the United States or to or for the account or benefit of US Persons (having the meaning given to it in Regulation S under the 1933 Act). **The attention of potential investors is drawn to section 7.6 of this Explanatory Memorandum and the compulsory redemption powers of the Manager referred to therein.**

It should be appreciated that the value of the Units and the income, if any, from them may fall as well as rise and that, accordingly, the amount redeemed by an investor on the redemption of Units may be less than the original investment made. It should also be appreciated that changes in the rates of exchange between currencies may cause the value of Units to diminish or increase in terms of the currencies of the countries/regions in which the Unitholder may be located.

Enquiries or complaints

Investors may contact the Manager for any queries or complaints in relation to the Trust. To contact the Manager, investors may:

(i) write to the Manager's address at Unit 301 Cheung Kong Centre, 2 Queen's Road Central, Hong Kong; or

(ii) call the Manager at +852 3944 5588.

The Manager will respond to the enquiry or complaint as soon as practicable.

Glossary

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

1933 Act	the United States Securities Act of 1933, as amended
1940 Act	the United States Investment Company Act of 1940, as amended
BOCHK or Custodian	Bank of China (Hong Kong) Limited
Business Day	a day when banks in Hong Kong are open for general business except for: (i) a Saturday or Sunday; or (ii) a day on which banks in Hong Kong are open for a shorter time as a result of a typhoon signal, a rainstorm warning or other similar event, unless the Manager, in consultation with the Trustee, determines otherwise
Code	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 set out in section 7.5 in this Explanatory Memorandum
Correspondent	has the meaning set out in section 1.2 in this Explanatory Memorandum
Dealing Period	a period which commences at the end of the preceding Dealing Period and ends in Hong Kong at 5:00 p.m. (Hong Kong time) on each Valuation Day Dealing Periods for other jurisdictions may be determined as the need arises but, in all cases, the principle will be maintained that the Dealing Period must end at or prior to 5:00 p.m. (Hong Kong time) on each relevant Valuation Day, as determined by the Manager
Entities within the same group	entities which are included in the same group for the purposes of consolidated financial statements prepared in accordance with internationally recognised accounting standards
Extraordinary Resolution	a resolution passed by 75 per cent. or more of the votes cast
FATCA	the United States Foreign Account Tax Compliance Act, sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such sections of the Code

FDI	financial derivative instrument
Government and other Public Securities	has the meaning as set out in the Code
Held-to-maturity Debt Securities	dated debt securities which are intended to be held to maturity by the Trust
HKD or HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKFRS	Hong Kong Financial Reporting Standards
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Initial Offer Period	has the meaning set out in section 3.3 in this Explanatory Memorandum
Initial Offer Price	has the meaning set out in section 3.3 in this Explanatory Memorandum
Issue Price	the price at which Units will be available for subscription, determined by the Manager in the manner described under section 3.3 of this Explanatory Memorandum
Mainland China	all the custom territories of the PRC, for the purposes of interpretation of this Explanatory Memorandum only, excluding Hong Kong and Macau Special Administrative Regions and Taiwan of the PRC
Manager	China Life Franklin Asset Management Co., Limited (中國人壽富蘭克林資產管理有限公司)
Money Market Instrument	includes government bill, certificate of deposit, commercial paper, short-term note and bankers' acceptance and asset-backed securities such as asset-backed commercial papers
Net Asset Value	the net asset value of a Unit determined in the manner described under section 3.7 of this Explanatory Memorandum
PRC	the People's Republic of China
Redemption Price	the price per Unit at which such Unit is redeemed, determined by the Manager in the manner described under section 3.4 of this Explanatory Memorandum
Reverse Repurchase Transactions	transactions whereby the Trust purchases securities from a counterparty of Sale and Repurchase Transactions and agrees to sell such securities back at an agreed price in the future
RQFII Fund	means a fund issued by a renminbi qualified foreign institutional investor approved pursuant to the relevant Mainland Chinese regulations (as amended from time to time)

Sale and Repurchase Transactions	transactions whereby the Trust 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
Securities Lending Transactions	transactions whereby the Trust lends its securities to a security-borrowing counterparty for an agreed fee
SFC	the Securities and Futures Commission in Hong Kong
Sovereign Debt	debt obligations issued or guaranteed by developing countries governments or their agencies and instrumentalities
Subscription Form	a form to be filled in for application for subscription of Units
Trust	China Life Franklin Diversified Income Fund
Trust Deed	the Trust Deed constituting the Trust dated 29 July 2014 and executed between the Manager and the Trustee, as amended from time to time
Trustee, Administrator or Registrar	China Life Trustees Limited (中國人壽信託有限公司)
Unit	an undivided unit in the Trust
Unitholder	for the time being recorded in the register of Unitholders as the holder of Units including, where the context so admits as applicable, persons jointly so registered
United States	the United States of America, its territories or possessions, any state of the United States, or the District of Columbia
US Persons	has the meaning ascribed to it in Regulation S under the 1933 Act
Valuation Day	each Business Day and/or such other day or days as the Manager may, in consultation with the Trustee, determine from time to time in its absolute discretion

1. Management and Administration

Manager	China Life Franklin Asset Management Co., Limited Unit 301 Cheung Kong Centre, 2 Queen's Road Central, Hong Kong Telephone No.: +852 3944 5588 Fax No.: +852 2297 0777
Directors of the Manager	CHEN Yingshun LAM Man Ching LI Guoan LIU Xiaodong McGOWAN Gregory Eugene PLAFKER Jed Andrew WANG Junhui WANG Yijiang ZHANG Haochuan ZHAO Peng
Trustee, Administrator and Registrar	China Life Trustees Limited 17th Floor, CLI Building, No.313 Hennessy Road, Wan Chai, Hong Kong Telephone No.: +852 2545 8111 Fax No.: +852 2893 2103
Custodian	Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong Telephone No.: +852 2826 6888 Fax No.: +852 3406 2326
Auditors	Ernst & Young 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Legal adviser	Simmons & Simmons, 30/F One Taikoo Place, 979 King’s Road, Hong Kong

1.1 Manager

The Manager is the first overseas asset management company established by a PRC state-owned insurance company, China Life Insurance (Group) Company, with the approval of the China Insurance Regulatory Commission.

The Manager was initially registered as a company in Hong Kong in November 2005 under the name of China Life Asset Management (Hong Kong) Corporation Limited. With Franklin Templeton Investments joining as a strategic investor in January 2007, the Manager became partly owned between China Life Asset Management Company Limited, Franklin Templeton Investments, and China Life Insurance (Overseas) Company Limited. The Manager was renamed to its current name in May 2007.

The Manager is licensed under the Securities and Futures Ordinance for Type 4 and Type 9 regulated activities.

Under the Trust Deed, the Manager is responsible for the management of the assets of the Trust.

The Manager may, at its discretion and subject to the prior approval of the SFC on giving not less than one month's prior notice to Unitholders, appoint investment delegates and other agents to provide it with assistance in its management of the investments of the Trust.

1.2 Trustee, Administrator and Registrar

The Trustee is a wholly owned subsidiary of China Life Insurance (Overseas) Company Limited, which is a member of China Life Insurance (Group) Company. The Trustee is one of the trustees approved by the Mandatory Provident Fund Authority to administer the registered Mandatory Provident Fund schemes in Hong Kong.

The Trustee is a registered trust company under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong).

Under the Trust Deed, the Trustee is responsible for the safe-keeping of the assets of the Trust and the maintenance of proper books of accounts, records and documents for the Trust, subject to the provisions of the Trust Deed. The Trustee also acts as the Registrar who will be responsible for keeping the register of Unitholders, and the Administrator who will provide accounting, Net Asset Value calculation and other administrative services.

Subject to applicable regulatory requirements, the Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself and any of its Connected Persons) to hold as custodian, or co-custodian, all or any of the investments, assets or other property comprised in the Trust and may empower any such custodian, or co-custodian to appoint, with the prior consent in writing of the Trustee, sub-custodian (each such delegate, agent, nominee, custodian, sub-custodian or co-custodian a "**Correspondent**"). The Trustee is required to (A) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of the Correspondents; and (B) be satisfied that such Correspondents remain suitably qualified and competent to provide the relevant service to the Trust. Provided that the Trustee has discharged its obligations set out in (A) and (B) the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent that is not a Connected Person of the Trustee. The Trustee shall remain liable for any act or omission of any Correspondent that is a

Connected Person of the Trustee as if the same were the act or omission of the Trustee.

The Trustee shall not be liable for any act or omission of: (A) Euro-clear Clearing System Limited or Clearstream Banking S.A. or any other recognised depositaries or clearing system, or (B) any lender or nominee appointed by the lender in whose name any assets of the Trust are registered as a result of any borrowing made by the Trustee for the purposes of the Trust.

1.3 Custodian

BOCHK has been appointed by the Trustee as the Custodian for the Trust. BOCHK was incorporated in Hong Kong on 16 October 1964. As a locally incorporated licensed bank, it was re-structured to the present form since 1 October 2001 by combining the businesses of ten of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in Nanyang Commercial Bank Limited and Chiyu Banking Corporation Limited, both of which are incorporated in Hong Kong, as well as BOC Credit Card (International) Limited.

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

With a network of over 260 branches, servicing more than 600,000 corporates and 2 million retail customers, BOCHK is the second largest banking group in Hong Kong. It offers a full range of banking services, including global custody and also fund-related services for institutional clients.

Pursuant to a custodian agreement, the Custodian will act as the custodian of the Trust’s assets, which will be held directly by the Custodian or through its agents, sub-custodians, or delegates pursuant to the custodian agreement and the Trust Deed.

2. Information on the Trust

2.1 Trust Structure

The Trust is an open-ended unit trust established under the laws of Hong Kong pursuant to the Trust Deed. The Trust may offer Units to Unitholders on a continuing basis at the Issue Price of the relevant class of Units of the Trust. Units may be issued in different classes. Each class of Units may be subject to different terms, including but not limited to, the amount of minimum subscription, the minimum holding, the charges payable on subscription, redemption or conversion of Units, the fees payable to the various service providers of the Trust, and the distributions and other benefits (if any) payable to Unitholders. Except as otherwise provided for in this Explanatory Memorandum or in the Trust Deed, Unitholders have the right to have their Units redeemed at the Redemption Price of the relevant class of Units.

The Trust currently offers three classes of Units. Units in new classes may be offered for investment from time to time and prospective investors should check with the Manager or the Trustee as to which classes are currently available for investment.

The base currency of the Trust is HKD.

2.2 Investment Objective and Policy

The investment objective of the Trust is to achieve a high level of current income and to provide a steady capital growth to Unitholders by investing primarily in a portfolio of global and regional fixed income securities, including high-yield bonds, which normally carry below investment grade ratings and emerging market debt. The Trust may also invest in equity securities and other types of investments on an ancillary basis. These securities may be denominated in either local currencies or globally traded major currencies.

The Trust intends to hold the following types of assets:

Type of assets	**Percentage limits of the net asset value of the Trust**
Fixed income securities	70% to 95%
Equity securities	5% to 20%
Other securities (such as convertible bonds and mutual funds)	0% to 5%
Cash and deposits	0% to 25 %

The Trust may invest indirectly in the onshore Mainland China securities market, up to 20% of the Trust's net asset value, through investment in securities issued or distributed outside Mainland China, e.g. RQFII Funds. The Trust does not invest in securities issued or distributed within Mainland China directly.

The Trust intends to invest up to 70 per cent. of its net asset value in the securities that are below investment grade or unrated. The Manager may invest in fixed income securities that are below investment grade or unrated and investors should be aware of the greater risks which may be involved in investing in these securities. "**Securities that are below investment grade**" refers to securities with a credit rating of BB+ or below from Standard & Poor's, Ba1 or below from Moody's or an equivalent rating from an internationally recognised rating agency. In selecting these securities, the Manager may use its own internal research process and judgment to assess the credit quality of the securities and the issuers thereof.

The Trust may invest in sovereign debt securities but it does not invest more than 10 per cent. of its net asset value in securities issued by or guaranteed by any single sovereign issuer (including its government, a public or local authority of that country/sovereign/region) with a credit rating below investment grade or unrated.

For the purpose of hedging, the Manager may make use of FDIs (including futures contracts). The Trust does not intend to invest in FDIs (including futures contracts) for investment purposes, asset-backed securities (including asset-backed commercial papers) and/or mortgage-backed securities. The Manager will not enter into any repurchase agreement, reverse-repurchase agreement or similar over-the-counter transactions in respect of the Trust. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions.

The Manager actively manages the Trust, which relies on the professional judgment of the Manager in making decisions about the Trust's portfolio investments. Portfolio construction is based on the Manager's view of the macro economy and a combination of top down and bottom-up fundamental analysis. Top-down analysis is based on the Manager's assessment of macroeconomic factors, state policies, market valuation and liquidity. When investing in equities securities, the Manager decides stocks via stock picking which involves bottom up analysis (e.g. research and analysis of individual stocks alongside with financial projection and valuation). When investing in fixed income securities, the Manager seeks to optimise portfolio combination via issuer selection, duration, term-structure. The duration of the fixed income securities investment portfolio is based on the Manager's expectations of the changes in interest rates. Duration measures the sensitivity of bond prices to the change of interest rates (or yields). Term-structure (or yield curve) represents the market's expectation of interest rates (or yields) with different maturities. The Trust will apply analysis in credit risk and liquidity risk to adjust the allocation of investment in fixed income securities and increase returns on investment.

All investments of the Trust are subject to the investment restrictions under the Trust Deed. Please refer to section 2.3 of this Explanatory Memorandum for details of the investment restrictions under the Trust Deed.

The Manager believes that the investment policy will be effective but there is no guarantee that the Trust's investment objective will be achieved. Investors should understand that all investment carries risk. The value of Units and the income from them, if any, may fall as well as rise and investors might not get back the amount originally invested. Investors are also reminded that in certain circumstances described in section 3.8 of this Explanatory Memorandum, dealing in the Units may be temporarily suspended.

2.3 Investment Restrictions and Prohibitions

Investment Restrictions

The Trust Deed sets out certain restrictions on the investment of the assets of the Trust which are summarised below:

(a) the aggregate value of the Trust's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of the Trust, 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 that entity;
(2) exposure to that entity through underlying assets of FDIs; and
(3) net counterparty exposure to that 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 Trust's investments in, or exposure to, Entities within the Same Group through the following may not exceed 20% of the Net Asset Value of the Trust:

(1) investments in securities issued by those entities;
(2) exposure to those entities through underlying assets of FDIs; and
(3) net counterparty exposure to those entities arising from transactions of over-the-counter FDIs;

(c) unless otherwise approved by the SFC, the value of the Trust's cash deposits made with the same entity or Entities within the Same Group may not exceed 20% of the Net Asset Value of the Trust, unless:

(1) the cash is held before the launch of the Trust 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 Trust, 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;
(4) For the purpose of this sub-paragraph (c), cash deposits generally refer to those that are repayable on demand or have the right to be withdrawn by the Trust and not referable to provision of property or services.

(d) ordinary shares issued by any single entity held for the account of the Trust may not exceed 10% of the nominal amount of the ordinary shares issued by a single entity;

(e) not more than 15% of the Net Asset Value of the Trust 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 Trust in a market is not in the best interests of investors, the Trust 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 Trust, 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 Trust as a result must be clearly disclosed in this Explanatory Memorandum; and
(3) the Trust 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 Trust;

(g) notwithstanding (a), (b) and (d), not more than 30% of the Net Asset Value of the Trust may be invested in Government and other Public securities of the same issue;

(h) subject to (g), the Trust may fully invest in Government and other Public securities in at least six different issues;

(i) unless otherwise approved by the SFC, the Trust 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 (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) 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 Trust should be consistently applied and clearly disclosed in this Explanatory Memorandum;

(k) where the Trust invests in shares or units of other collective investment schemes (“**underlying schemes**”),

(1) the value of the Trust'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 Net Asset Value of the Trust; and

(2) the Trust 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 Trust's investment in units or shares in each such underlying scheme may not exceed 30% of the Net Asset Value of the Trust, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in this Explanatory Memorandum of the Trust, 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 Trust 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 same management company as that of the Trust that invests in them, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the 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 Trust or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the management company of an underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;

(l) the Trust may invest 90% or more of its total Net Assets Value in a single collective investment scheme and may be authorised as a feeder fund by the SFC. In this case:

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

(2) the Explanatory Memorandum must state that:

(i) the Trust is a feeder fund into the master fund;

(ii) for the purpose of complying with the investment restrictions, the Trust and its master fund will be deemed a single entity;

(iii) the Trust'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 Trust 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 Trust may result, if the master fund in which the Trust 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) if the name of the Trust indicates a particular objective, investment strategy, geographic region or market, the Trust should, under normal market circumstances, invest at least 70% of its Net Asset Value in securities and other investments to reflect the particular objective, investment strategy or geographic region or market which the Trust represents.

Investment Prohibitions

The Trust shall not:

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

(b) invest in any type of real estate (including buildings) or interests in real estate, including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs) and in the case of investments in such shares and REITs, they shall comply with the investment restrictions and limitations set out in sub-paragraphs (a), (b), (d), (e) and (k) under the section entitled “Investment Restrictions” above where applicable;

(c) make short sales if as a result the Trust would be required to deliver securities exceeding 10% of the Net Asset Value of the Trust (for this purpose securities sold short must be actively traded on a market where short selling is permitted, and for the avoidance of doubt, the Trust is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations);

(d) lend or make a loan out of the assets of the Trust, 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 Trust or acquire any asset or engage in any transaction for the account of the Trust which involves the assumption of any liability which is unlimited. For the avoidance of doubt, the liability of Unitholders is limited to their investment in the Trust; or

(g) apply any part of the Trust 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 Trust whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs).

2.4 Borrowing Policy

The Trustee may, at the request of the Manager, borrow for the account of the Trust for the purposes of:

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

(b) enabling the Manager to acquire investments for the account of the Trust; or

(c) for any proper purpose as may be agreed by the Manager and the Trustee.

The maximum borrowing limit of the Trust inclusive of short-term borrowings to cover redemption or other special situations shall not at any time exceed 10 per cent. of the total Net Asset Value of the Trust at the time of the borrowing provided that back-to-back borrowings shall not be taken into account when determining whether or not these limits have been breached.

2.5 Financial Derivative Instruments

Subject always to the provisions of the Trust Deed and the Code, the Manager may on behalf of the Trust acquire FDIs for hedging purposes. FDIs are considered as being acquired for hedging purpose if they meet all of the following criteria:

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

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

(c) they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and

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

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

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

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

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

Subject to 7.26 and 7.28 of the Code, the Trust may invest in FDIs provided that the exposure to the underlying assets of the FDI, together with the other investments of the Trust, may not in aggregate exceed the correponding 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 Trust 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, in which the Trust may invest according to its investment objectives and policies;

(b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions 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 net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of the Trust. The exposure of the Trust to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Trust 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 . The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Trust. 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 financial derivative instruments on a regular basis.

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

- in the case of FDI transactions which will, or may at the Trust's discretion, be cash settled, the Trust 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 Trust 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 Trust 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. Where it is holding alternative assets as cover, the Trust should apply safeguard measures such as to apply haircut where appropriate to ensure that such alternative assets held are sufficient to meet its future obligations.

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

2.6 Securities Financing Transactions

The Manager will not enter into any Securities Lending Transactions, Sale and Repurchase Transactions, Reverse Repurchase Transactions and other similar over-the-counter transactions in respect of the Trust. The Manager will seek the prior approval of the SFC and provide at least one month's prior notice to Unitholders before the Manager engages in any such transactions.

2.7 Other Provisions relating to Investment and Borrowing

The Manager may also (although it will not be under any obligation to do so), from time to time, formulate such other investment and borrowing limitations and prohibitions in accordance with the provisions of the Trust Deed.

Any limitation on investment or borrowing to be measured by reference to the latest available Net Asset Value of the Trust shall be measured by reference to the latest available Net Asset Value of the Trust.

If any of the above investment restrictions or borrowing limits are exceeded or prohibitions breached, the Manager shall, taking due account of the interests of Unitholders, take as a priority objective all steps as are necessary to restore the position within a reasonable period of time so that the limits exceeded will not persist.

3. Subscription and Redemption of Units

3.1 Summary of Features

The Trust currently offers the following classes of Units, the key features of which are summarised below:

Class of Units	**HKD Class**	**USD Class 1**	**USD Class 2**	**PRC RMB Class***	**PRC USD Class***
Minimum initial subscription	HK$50,000^	US$6,500^	US$5,000,000^	RMB1,000	US$100
Minimum subsequent subscription	HK$10,000^	US$1,300^	US$5,000,000^	RMB1,000	US$100
Minimum holding	HK$1,000^	US$130^	US$100,000^	RMB100	US$10
Minimum redemption amount applicable to partial redemption	HK$1,000^	US$130^	US$100,000^	RMB10	US$10
Subscription charge	currently up to a cap of 3 per cent. of the Issue Price	currently up to a cap of 3 per cent. of the Issue Price	currently up to a cap of 3 per cent. of the Issue Price	currently 1 per cent. of the Issue Price, but may be increased to up to 3 per cent. of the Issue Price#	currently 1 per cent. of the Issue Price, but may be increased to up to 3 per cent. of the Issue Price#
Redemption charge	Nil	Nil	Nil	Nil	Nil
Switching charge	Nil	Nil	Nil	Nil	Nil
Trustee fee	0.4 per cent. per annum of the Net Asset Value	0.4 per cent. per annum of the Net Asset Value	0.35 per cent. per annum of the Net Asset Value	0.4 per cent. per annum of the Net Asset Value	0.4 per cent. per annum of the Net Asset Value
Custodian fee	up to 0.15 per cent. per annum of the Net Asset Value	up to 0.15 per cent. per annum of the Net Asset Value	up to 0.15 per cent. per annum of the Net Asset Value	up to 0.15 per cent. per annum of the Net Asset Value	up to 0.15 per cent. per annum of the Net Asset Value
Management fee	0.8 per cent. per annum of the Net Asset Value (up to a maximum of	0.8 per cent. per annum of the Net Asset Value (up to a maximum of	0.8 per cent. per annum of the Net Asset Value (up to a maximum of 5.0 per cent. per	0.8 per cent. per annum of the Net Asset Value (up to a maximum	0.8 per cent. per annum of the Net Asset Value (up to a maximum

	5.0 per cent. per annum of the Net Asset Value, paid monthly)	5.0 per cent. per annum of the Net Asset Value, paid monthly)	annum of the Net Asset Value, paid monthly)	of 5.0 per cent. per annum of the Net Asset Value, paid monthly)	of 5.0 per cent. per annum of the Net Asset Value, paid monthly)
Performance fee	Performance Fee Rate (10%) x Period-End Excess NAV per Unit x Period-End Average Number of Units For the details and illustrative examples of the performance fee calculation, please refer to section 6.5 of this Explanatory Memorandum.			Nil	Nil

^ Or such other amount prescribed by the Manager from time to time, subject to the prior approval of the SFC (where applicable) and/or on giving not less than one month's prior notice.

* The Manager may issue PRC RMB Class and PRC USD Class for the Trust in due course subject to approval from the China Securities Regulatory Commission to offer the Trust to retail investors in Mainland China under the northbound Mainland-Hong Kong Mutual Recognition of Funds regime. PRC RMB Class and PRC USD Class Units will be available to investors in Mainland China only and will not be offered in Hong Kong. In respect of details in relation to PRC RMB Class and PRC USD Class, please refer to the Trust's offering documents applicable to investors in Mainland China.

With the approval of the Manager, sales institutions in the Mainland China may carry out marketing activities on a regular or irregular basis and implement certain preferential treatment in respect of the sales charges of the relevant class of Units.

Switching between different classes of Units is not permitted.

3.2 Dealing Periods

The Trust is valued as at the close of business in the last market to close of all relevant markets in which the Trust is invested (or at such other time as the Manager may, in consultation with the Trustee, determine) on each Valuation Day. Valuation Day is currently each Business Day and/or such other day or days as the Manager may, with the Trustee's approval (which shall not be unreasonably delayed or withheld), determine from time to time in its absolute discretion. A Business Day is a day when banks in Hong Kong are open for general business except for: (i) a Saturday or Sunday; or (ii) a day on which banks in Hong Kong are open for a shorter time as a result of a typhoon signal, a rainstorm warning or other similar event, unless the Manager, in consultation with the Trustee, determines otherwise.

Investors may subscribe for, or redeem, Units at the Issue Price and Redemption Price respectively, denominated in Hong Kong dollars and based on the Net Asset Value per Unit as determined on a Valuation Day in the manner described under section 3.7 of this Explanatory Memorandum.

At present, Dealing Periods are periods which commence at the end of the preceding Dealing Period and end in Hong Kong at 5:00 p.m. (Hong Kong time) on each Valuation Day.

Dealing Periods for other jurisdictions may be determined as the need arises but, in all cases, the principle will be maintained that the Dealing Period must end at or prior to 5:00 p.m. (Hong Kong time) on each relevant Valuation Day, as determined by the Manager.

The Manager has power to alter the Dealing Periods in any jurisdiction, to determine that Dealing Periods should be referable to a different Valuation Day, and to change the time at which the Trust is valued on each Valuation Day provided that any alterations will be made with the SFC's prior approval and by giving one month's prior written notice to Unitholders.

3.3 Subscription of Units

All applications to subscribe for Units are subject to the terms, conditions and restrictions of this Explanatory Memorandum and the Trust Deed. **The Manager reserves the right to reject any application in whole or in part in which case the subscription monies will be returned (without interest) by cheque or telegraphic transfer at the cost and risk of the investor.**

The initial offer period for HKD Class (which is the initial class of Units of the Trust) commenced at 9:00 a.m. (Hong Kong time) on 15 September 2014 and closed at 5:00 p.m. (Hong Kong time) on 22 September 2014 ("**Initial Offer Period**"). HKD Class Units were available for subscription at the initial offer price of HK$10.00 ("**Initial Offer Price**"). HKD Class Units subscribed for during the Initial Offer Period were issued on the last day of such Initial Offer Period.

Applications for subscription of Units must be sent to the Trustee by post to the business address or by fax to the fax number shown on the Subscription Form. All initial applications for subscription of Units must be made on the Subscription Form which is available from the Trustee. The Trustee may, in its absolute discretion, determine whether or not duly signed original applications are required in respect of applications for subscription sent by fax.

Applications for subscription (whether by post or by fax) must be received by the Trustee by 5:00 p.m. (Hong Kong time) on the Valuation Day of any Dealing Period in order to be dealt with by reference to that Valuation Day. However, the Manager may in the future stipulate that such an application shall be subject to the expiration of a period of notice.

Where such minimum notice period is stipulated by the Manager, any application for subscription of Units shall be treated as having been received in the Dealing Period in which the minimum notice period expires. Valid applications for subscription received (whether by post or by fax) by the Trustee after 5:00 p.m. (Hong Kong time) on a Valuation Day will be deemed to have been received, and will be dealt with, in the next Dealing Period and with reference to the Valuation Day coinciding with the close of such succeeding Dealing Period.

The Issue Price per Unit will be based on the Net Asset Value per Unit calculated as at that Valuation Day to the best interest of the investors. In determining the Issue Price of Units, the Manager is entitled to add to the Net Asset Value per Unit, for the account of the Trust, an amount which it considers to be an appropriate allowance (not exceeding 1.0 per cent. of such Net Asset Value per Unit) for fiscal and purchase charges incurred or which would be incurred by the Trust in investing subscription monies.

In respect of subscriptions for Units through a distributor appointed by the Manager, a subscription charge may be charged by the Manager on behalf of the distributor on the issue of each Unit upon the request of the distributor. Under the Trust Deed, the subscription charge shall be equal to such percentage of the Issue Price of the relevant Unit as the Manager may in its discretion select in respect of each class but not exceeding a maximum of 5 per cent. or such higher figure as the Manager with the approval of the Trustee may determine (subject to the applicable requirements of the Code).

Currently, the applicable subscription charge for each of HKD Class, USD Class 1 and USD Class 2 may vary depending on the distributor through which a subscription of Units is made, but will currently be subject to a cap of 3 per cent. of the Issue Price. Any further increase in the applicable subscription charge up to the maximum percentage level of 5 per cent. as permitted under the Trust Deed shall only take effect at the expiration of not less than one months' notice to the relevant Unitholders of the relevant Class.

The subscription charge may be retained by or paid to the Manager or, to the person or persons by or through whom the Units are offered for subscription (such as a distributor), for their own use and benefit by agreement between the Manager and such person(s). As such, the Manager shall not be responsible for any arrangements between the relevant applicant and the distributor regarding the payment of the subscription charge and any related matters, as well as any costs or losses that may arise therefrom. Applicants who intend to apply for Units through a distributor should consult the distributor for details regarding the subscription charge, dealing procedures and cut-off times for receipt of application.

The Manager may on any day differentiate between applicants as to the amount of the subscription charge to be added to the Issue Price of Units to be issued to them respectively on that day.

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 (including a distributor) shall not be added to the Initial Offer Price or the Issue Price (as the case may be) but shall be (i) paid by the Manager out of the subscription charge (if any) or any fees received by the Manager out of the trust fund or (ii) by agreement with the Manager, be retained by such agent or other person.

Currently, by agreement between the Manager and each distributor appointed by the Manager, any subscription charge payable shall be retained in full by each such distributor.

Units of the Trust are denominated in Hong Kong dollars.

Full details of the application and payment procedures for Units are set out in section 8 of this Explanatory Memorandum.

3.4 Redemption of Units

All applications to redeem Units are subject to the terms, conditions and restrictions of this Explanatory Memorandum and the Trust Deed.

Requests to redeem Units may be made to the Trustee during any Dealing Period in writing and sent by post to the business address or by fax to the fax number shown on the Subscription Form. Redemption requests should specify the number of Units or the amount to be redeemed, the name in which such Units are registered and details of the bank account (if any) to which the redemption monies are to be transferred. The Trustee may, in its absolute discretion, determine whether or not duly signed original requests are required in respect of requests for redemption sent by fax.

All redemption requests must be signed by the Unitholder or, in the case of joint Unitholders, such one or more joint Unitholders who have been authorised to sign such requests on behalf of the other joint Unitholders (where such authorisation has been notified in writing to the Trustee) or, in the absence of such notification, by all joint Unitholders.

Applications for redemption (whether by post or by fax) must be received by the Trustee by 5:00 p.m. (Hong Kong time) on the Valuation Day of any Dealing Period in order to be dealt with by reference to that Valuation Day. For the avoidance of doubt, the effective date of redemption is determined by reference to the actual receipt of the application for redemption by the Trustee. Applicants who intend to apply for redemption of Units through a distributor should consult the distributor for details regarding the dealing procedures and cut-off times for receipt of application.

Valid applications for redemption received (whether by post or by fax) by the Trustee after 5:00 p.m. (Hong Kong time) on a Valuation Day will be deemed to have been received, and will be dealt with, in the next Dealing Period and with reference to the Valuation Day coinciding with the close of such succeeding Dealing Period.

The Redemption Price per Unit will be based on the Net Asset Value per Unit calculated as at that Valuation Day to the best interest of the investors. In determining the Redemption Price of Units, the Manager is entitled to deduct from the Net Asset Value per Unit, for the account of the Trust, an amount which it considers to be an appropriate allowance (not exceeding 1.0 per cent. of such Net Asset Value per Unit) for fiscal and sale charges incurred or which would be incurred by the Trust in realising assets to provide sufficient redemption proceeds. The resultant amount will be rounded to the nearest two decimal places and monies representing any difference between the resultant amount and the amount arrived at after the rounding exercise shall be absorbed by the Trust.

Unitholders should note that redemption monies will not be paid to any Unitholder until (a) the duly signed original written redemption request (if such original is required by the Trustee) and all other supporting documents (if any are required) have been received by the

Registrar; and (b) if the redemption proceeds are to be paid by telegraphic transfer to a bank account in Hong Kong, the signature of the Unitholder (or the relevant joint Unitholder or Unitholders) on the redemption request form must be verified by a banker or some other person acceptable to the Registrar. No redemption proceeds will be paid to third parties.

Redemption proceeds will normally be paid in Hong Kong dollars by telegraphic transfer according to instructions given by the relevant Unitholder(s) to the Trustee or by cheque made in favour of, and sent at the risk of the person(s) entitled to such proceeds to the registered address of the Unitholder or (in the case of joint Unitholders) the first named joint Unitholder appearing on the register of Unitholders. If there is no delay in submitting all duly completed redemption documentation, the markets in which a substantial portion of the investments is made are not subject to legal or regulatory requirements (such as foreign currency controls) which render payment of redemption money within one calendar month not practicable and the Manager is not exercising any of its powers described in section 3.8 of this Explanatory Memorandum below, the maximum interval between the receipt of a properly documented request for redemption of Units and payment of redemption proceeds to the Unitholders may not exceed one calendar month.

All bank charges and administrative costs incurred in settling redemption proceeds to the Unitholder(s) will be borne by the relevant Unitholder(s) and deducted from the redemption proceeds. Any risks arising from delay in clearance of funds by banks or from sending out the cheque by post will be borne by the relevant Unitholders.

With the prior consent of the Manager, arrangements can be made for redemption proceeds to be paid in any major currency other than Hong Kong dollars. Such alternative settlement instructions should be specified in the redemption request. The costs of any currency conversion (to be effected at such rates as the Manager may, in its discretion, deem appropriate) and other administrative expenses will be borne by the relevant Unitholder(s). Such currency conversion will be carried out at arm’s length and executed on the best available terms.

With a view to protecting the interests of Unitholders, the Manager may limit the number of Units redeemed during any Dealing Period to 10 per cent. of the total number of Units in issue on the Valuation Day for that Dealing Period. Such limitation will be applied pro rata to all Unitholders who have requested such redemption. Redemption requests for Units which are not redeemed will be carried forward to the next Dealing Period to be redeemed by reference to the next Valuation Day (subject to being further deferred if the carried forward requests themselves exceed 10 per cent. of the total number of Units in issue) provided that redemption requests carried forward from an earlier Valuation Day shall be dealt with in priority to later requests.

Partial redemptions may be effected. However, if a redemption request will result in a Unitholder having a residual holding of less than a value of HK$1,000, or such other minimum holding prescribed by the Manager from time to time, by reference to the Valuation Day on which the relevant redemption request is effected, the Manager may require that Unitholder to redeem all the Units held by that Unitholder.

In addition, a Unitholder is not entitled to realise only part of the Units held by that Unitholder if the amount of proceeds realised from such Units is less than HK$1,000 or such other minimum redemption amount prescribed by the Manager from time to time.

3.5 Transfers

Unitholders are entitled to transfer Units by an instrument in writing in such form as the Manager may from time to time prescribe signed by both the transferor and the transferee and left with the Registrar for registration. All forms for the transfer of Units sent by fax to the Trustee must be followed by the duly signed original forms and the transfer of Units will only be effected upon receipt of the original executed transfer forms.

No transfer will be accepted if, as a result of such transfer, the value of Units held by either the transferor or the transferee is less than HK$1,000 or such other minimum holding specified by the Manager from time to time or Units are acquired or held by a non-qualified person as described under section 7.6 of this Explanatory Memorandum.

3.6 Fax Instructions

All instructions received by fax from investors or Unitholders in respect of the subscription or redemption of Units (whether or not the duly signed original applications or requests are also required by the Trustee to follow such faxed instructions) will generally be acted upon by the Trustee subject to its absolute discretion not to, and instructing the Trustee and the Custodian not to, do so until the original written instructions are received. The Trustee is not obliged to verify the identity of the person sending the instructions by fax.

Neither the Manager, the Trustee, the Administrator nor the Custodian nor any of their agents, employees or delegates will be liable for any loss which the relevant investor or Unitholder may suffer arising from (a) their acting on any faxed instructions which they believe in good faith to have originated from properly authorised persons; or (b) the Trustee exercising its absolute discretion not to, and instructing the Trustee or the Custodian or any of their agents, employees or delegates not to, act on such faxed instructions; or (c) any faxed instructions which are illegible or not received by the Trustee. Moreover, without written confirmation of receipt by the Trustee, a transmission report produced by the originator of the facsimile transmission disclosing the transmission was sent shall not be sufficient proof of receipt thereof by the Trustee.

3.7 Valuation, Calculation and Publication of Net Asset Value

The Net Asset Value of the Trust will be determined as at the close of business in the last market to close of all relevant markets in which the Trust is invested (or at such other time as the Manager, in consultation with the Trustee, may determine) on each Valuation Day by valuing the assets of the Trust and deducting the liabilities of the Trust in accordance with the terms of the Trust Deed.

The Trust Deed provides that:

(a) Held-to-maturity Debt Securities are valued at cost and adjusted for the amortisation of premiums and discounts arising from acquisition by a professional person approved by the Trustee on a regular basis. Investment incomes include interest, dividends, realised and unrealised capital, and currency gains or losses;

(b) without prejudice to paragraph (a) above, the value of any quoted security or quoted commodity shall be calculated by reference to the latest available quoted traded price on the market on which such security or commodity is quoted, listed or ordinarily dealt in;

(c) without prejudice to paragraph (a) above, the value of any unquoted security or unquoted commodity shall be its initial value being the amount expended on behalf of the Trust in the acquisition thereof (excluding the amount of stamp duties, commissions and other acquisition expenses), subject to revaluation by a professional person approved by the Trustee on a regular basis;

(d) cash, deposits and similar property 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;

(e) notwithstanding the foregoing, the Manager 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 (in consultation with the Trustee) determines that such adjustment or use of such other method is required to reflect the fair value of the investment; and

(f) any value or amount which is not denominated in the base currency of the Trust shall be converted into the base currency of the Trust at the rate (whether official or otherwise) which the Manager or the Trustee shall deem appropriate in the circumstances having regard to any premium or discount which may be relevant and to costs of exchange.

The Net Asset Value per Unit of the Trust will be calculated by dividing the Net Asset Value of the Trust on the relevant Valuation Day by the total number of Units which are then in issue.

The Net Asset Value per Unit will be rounded down to the nearest four decimal places and monies representing any difference between the resultant amount and the amount arrived at after the rounding exercise shall be absorbed by the Trust.

The Net Asset Value per Unit is available from the Administrator on request and is published daily in the website http://www.clamc.com.hk (the contents of which have not been reviewed by the SFC). Investors are advised that such published prices are for information only.

3.8 Suspension of the Determination of Net Asset Value

The Manager may, in consultation with the Trustee, declare a suspension of the determination of the Net Asset Value of the Trust if:

(a) there is in existence any state of affairs prohibiting the normal disposal of the investments of the Trust which, in the opinion of the Trustee or the Manager, might seriously prejudice the interest of the Unitholders; or

(b) (other than ordinary holiday or customary weekend closings) there is a closure of or the suspension or restriction of trading on any market to which a substantial part of the investments of the Trust is exposed; or

(c) there is a breakdown in any of the means normally employed by the Manager or the Trustee (as the case maybe) in ascertaining the value of the Trust or the Net Asset Value of the Trust or when for any other reason the value of a substantial portion of the securities or other property for the time being comprised in the Trust cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained; or

(d) for any other reason outside the reasonable control of the Manager, the prices of a substantial portion of investments comprised in the Trust or which the Manager shall have agreed to acquire for the account of the Trust cannot, in the opinion of the Manager, be ascertained promptly and accurately; or

(e) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise a substantial portion of the investments held or contracted for the account of the Trust or it is not possible to do so without seriously prejudicing the interest of the Unitholders; or

(f) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, a substantial portion of the investments of the Trust or the subscription or redemption of Units is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange without prejudicing the interests of the Unitholders; or

(g) the issue, redemption or transfer of Units would result in the violation of any applicable law.

A suspension of the determination of the Net Asset Value shall take effect immediately upon the declaration by the Manager, following which there shall be no determination of the Net Asset Value or Net Asset Value per Unit or the Issue Price or the Redemption Price until the suspension shall have terminated. No Units will be issued or redeemed during any period of suspension.

Whenever the Manager declares such a suspension it shall immediately notify the SFC of such suspension and shall, immediately following such declaration and at least once a month during the period of such suspension, publish a notice on the website at http://www.clamc.com.hk (the contents of which have not been reviewed by the SFC) or in such other publications as it decides.

3.9 Form of Units

A contract note will normally be issued by the Registrar as soon as practicable after the relevant Valuation Day upon acceptance of an application for subscription of Units. Certificates for Units will, however, not be issued. The number of Units to be issued pursuant to any application for subscription will be rounded down to four decimal places and any monies representing any lesser fraction of a Unit shall be retained for the benefit of the Trust.

4. Risk Factors

The nature of the Trust's investments involves certain risks and uncertainties, including those inherent in any investment. There can be no assurance that the investment objective of the Trust will be achieved. This section sets out what the Manager believes are the general risks associated with investments in the Trust. The risk factors below do not offer advice on the suitability of investing in the Trust. Prospective investors should carefully evaluate the merits and risks of an investment in the Trust in the context of their overall financial circumstances, knowledge and experience as an investor and should consult their independent professional or financial advisers before making any investment in the Trust.

4.1 General risks

<u>Investment risk</u>

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

<u>Market risk</u>

The Net Asset Value of the Trust will change with changes in the market value of the investments of the Trust. The value of such investments, and consequently the price of Units of the Trust, may go down as well as up.

<u>Risk of investing in equity securities</u>

The Trust may invest directly or indirectly in equity securities and thus is exposed to the risk that the market value of such equity securities may go down as well as up. Equity markets may fluctuate significantly with prices rising and falling sharply, and this will have a direct impact on the Trust. When equity markets are extremely volatile, the Net Asset Value may fluctuate substantially and investors may suffer substantial loss.

<u>Risk of investing in fixed income securities</u>

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

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

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

Risks of investing in below minimum credit rating, below investment grade and unrated fixed income securities: The Trust may invest in fixed income securities which (or the issuers of which) are rated below the minimum credit rating or below investment grade, or which are unrated. As mentioned above, such securities are generally more susceptible to the credit risk of the issuers, and as a result such investments assume greater risks because of generally reduced liquidity and greater fluctuation in value. The valuation of these securities may also be more difficult and thus the Trust's prices may be more volatile.

Risks of credit rating downgrades: Credit rating of issuers of fixed income securities may be downgraded, thus adversely affecting the value and performance of the Trust holding such investments.

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

Investing in convertible bonds risks: The Trust may invest in convertible bonds, which are a hybrid between debt and equity securities. Convertible bonds allow holders to convert into shares in the company issuing the bond at a specified future date, and are subject to risks of both fixed income securities and equities. Convertible bonds can fluctuate in value with the price changes of the issuers' underlying stocks. If interest rates rise, the value of the corresponding convertible bond will fall. The valuation of convertible bonds may be more difficult due to the greater price fluctuations. Investments in convertible bonds are subject to the same interest rate risk, credit risk, liquidity risk and prepayment risk associated with comparable straight bond investments.

Sovereign debt risk: The Trust may invest in sovereign debt securities and such investments involve special risks. The repayment of debts by a government is subject to various factors including the economic and political factors. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. Since the Trust's recourse against a defaulting sovereign is limited, the Trust may incur substantial loss if the sovereign defaults.

<u>Risk associated with investment in instruments with non-viability / loss absorption convertible features</u>

The Trust may invest up to 5% of its Net Asset Value in contingent convertible bonds.

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

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

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

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

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

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

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

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

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

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

Sector concentration risk: Contingent convertible bonds are issued by banking and insurance institutions.

Investment in contingent convertible bonds may lead to an increased sector concentration risk. The performance of the Trust which invests in contingent convertible bonds will depend to a greater extent on the overall condition of the financial services industry than for the Trust following a more diversified strategy.

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

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

"Dim Sum" bond market risks

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

Country/Region risk

The Trust from time to time allocates investment to different countries/regions in either developed or emerging markets based on risk/return opportunities. The investment may therefore subject to the uncertainty of business environment, economic fundamentals, political stability that may adversely affect the market valuation of the invested assets. In some cases, some countries/regions with weak fundamental may default on their debts that in turn requires debt restructuring. These risk events will trigger higher volatility, liquidity risk and currency risk associated with the countries/regions in troubles. The performance and value of the Trust may be adversely affected should there be any adverse credit events (e.g. downgrade of the sovereign credit rating or default of bankruptcy of the countries/regions).

Emerging market risk

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

Risks associated with Mainland China

Economic risks

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

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

For more than 20 years, the Chinese government has carried out economic reforms to achieve decentralisation and utilisation of market forces to develop the economy of Mainland China. These reforms have resulted in significant economic growth and social progress. The investments in Mainland China may be affected by the changes in government policies, promulgation of foreign currency and monetary policies and tax regulations.

Mainland Chinese laws and regulations difference risk

Mainland Chinese regulatory laws and regulations affecting securities markets are 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 uncertainties. In addition, as the Mainland Chinese legal system develops, laws and regulations will continue to change and may contain conflicts and ambiguities.

Accounting and reporting standards risk

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

Risk associated with investment in local government financing vehicles (“LGFVs”)

Bonds issued by local government financing vehicles (“LGFVs”) are typically not guaranteed by local governments or the central government of China. In the event that the LGFVs default on payment of principal or interest of the bonds, the Trust could suffer substantial loss.

Counterparty risk

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

Deposits of securities or cash with a custodian, bank or financial institution (“**custodian or depository**”) will also carry counterparty risk as the custodian or depository may be unable to perform their obligations due to credit-related and other events like insolvency of or default by them. In these circumstances, the Trust may be required to unwind certain transactions and may encounter delays of some years and difficulties with respect to court procedures in seeking recovery of the Trust’s assets.

In most cases, the Trust's assets will be maintained by the custodian or depository in segregated accounts and would be protected in the event of the insolvency of the custodian or depository. However, in some custody or sub-custody arrangements, the Trust may not have a right to have specific assets returned to it, but rather, the Trust may only have an unsecured claim against the custodian or counterparty, in which case it may lose all or the greater part of the value of the relevant assets.

Liquidity risk

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

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

Currency risk

Underlying investments of the Trust may be denominated in currencies other than the base currency of the Trust. The Net Asset Value of the Trust may be affected unfavorably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

Restricted markets risk

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

Over-the-counter markets risk

OTC markets are subject to less governmental regulation and supervision of transactions (in which many types of FDIs and structured products are generally traded) than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions carried out on OTC markets. Therefore, the Trust entering into transactions on OTC markets will be subject to the risk that its direct counterparty will not perform its obligations under the transactions.

In addition, certain instruments traded on the OTC markets can be illiquid. The market for relatively illiquid investments tends to be more volatile than the market for more liquid investments.

Hedging risk

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

Collateral and FDI risk

The Manager may make use of FDIs for hedging purpose. The risks associated with the use of FDIs are different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Generally, a FDI is a financial contract the value of which depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indices. The Trust may utilise both exchange-traded and over-the-counter derivatives. Compared to equity securities, FDIs can be more sensitive to changes in market prices of the underlying assets and thus market prices of FDIs may fall in value as rapidly as they may rise. Investors investing in the Trust are exposed to a higher degree of fluctuation in value than a fund which does not invest in FDIs. Transactions in over-the-counter FDIs may involve additional risk such as the risk that a counterparty defaults as there is no regulated market for such FDIs. Investing in FDIs also involves other types of risks including, but not limited to, the risk of adopting different valuation methodologies and imperfect correlation between the FDI and its underlying securities, rates and indices. Risks associated with FDIs also include counterparty/credit risk, liquidity risk, valuation risk, volatility risk and over-the-counter transaction risk. The leverage element/component of a FDI can result in a loss significantly greater than the amount invested in the FDI the Trust. Exposure to FDIs may lead to a high risk of significant loss by the Trust. There is no assurance that any derivative strategy used by the Trust will succeed.

There are also risks associated with management of collateral and re-investment of collateral. The value of any collateral received in respect of FDI transactions (if any) may be affected by market events. In the case of collateral assets which are listed securities, the listing of such securities may be suspended or revoked or the trading of such securities on the stock exchanges may be suspended, and during the period of suspension or upon revocation, it may take longer to realise the relevant collateral assets. In the case of collateral assets which are debt securities, the value of such securities will be dependent on the creditworthiness of the issuers or obligors in respect of the relevant collateral assets. In the event any issuer or obligor of such collateral assets is insolvent, the value of the collateral assets will be reduced substantially and may cause the Trust's exposure to such counterparty to be under-collateralised. If the Trust reinvests cash collateral, it is subject to investment risk including the potential loss of principal.

Reliance on the Manager

The Trust will rely upon the Manager in formulating the investment strategies and its performance is largely dependent on the continuation of an agreement with the Manager and the services and skills of their respective 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 the insolvency of the Manager, the Trust may not find successor managers quickly and the new appointment may not be on equivalent terms or of similar quality. Therefore, the occurrence of those events could cause a deterioration in the Trust's performance and investors may lose money in those circumstances.

Active Investment Management

The Trust's investments will not track a particular share index or other predetermined benchmarks. Instead, the Trust's assets will be actively managed by the Manager, based on the expertise of individual fund managers, who will have discretion (subject to the Trust's investment restrictions) to invest the Trust's assets in investments that it considers will enable the Trust to achieve its investment objective. There is no guarantee that the Trust's investment objective will be achieved based on the investments selected.

Borrowing Risks

The Trust may borrow for the account of the Trust (up to 10 per cent. of the total Net Asset Value of the Trust) for various reasons, such as facilitating redemptions or to acquire investments for the account of the Trust. Borrowing involves an increased degree of financial risk and may increase the exposure of the Trust 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 Trust will be able to borrow on favourable terms, or that the Trust's indebtedness will be accessible or be able to be refinanced by the Trust at any time.

Risks of Investing in Other Funds

A Trust may invest in underlying funds which are not regulated by the SFC. In addition to the expenses and charges charged by the Trust, investor should note that there are additional fees involved when investing into these underlying funds, including fees and expenses charged by investment manager of these underlying funds as well as fees payable by the Trust during its subscription to or redemption from these underlying funds. Furthermore, there can be no assurance that (i) the liquidity of the underlying funds will always be sufficient to meet redemption request as and when made; and (ii) investment objective and strategy will be successfully achieved.

Performance fee risk

Performance fees may encourage the Manager to make riskier investment decisions than in the absence of performance-based incentive systems. The increase in Net Asset Value which is used as a basis for the calculation of performance fees may comprise of both realised gains and unrealised gains as at the end of the calculation period. As a result, performance fees may be paid on unrealised gains which may subsequently never be realised by the Trust.

There is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis. A Unitholder redeeming units may still incur performance fee in respect of the units, even though a loss in investment capital has been suffered by the redeeming Unitholder.

Furthermore, any decrease in the percentage level of the High Water Mark may increase the frequency of triggering the payment of performance fee and, once such payment is triggered, increase the amount of performance fees payable to the Manager. This may therefore increase the Manager's dependence on remuneration based on the performance of the Trust and further incentivise the Manager to take additional risks when making investment decisions in order to maximise the appreciation of the Net Asset Value of the Trust.

Legal and compliance risk

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

Suspension risk

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

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

Effect of Redemptions

If significant redemptions of Units are requested, it may not be possible to liquidate the Trust's investments at the time such redemptions are requested or the Trust may be able to do so only at prices which the Trust believes does not reflect the true value of such investments, resulting in an adverse effect on the return to the investors. Where significant redemptions of Units are requested, the Trust may limit the number of Units that are redeemed on any Valuation Day. Please see section 3.4 of this Explanatory Memorandum for further details.

Early termination risk

The Trust may be terminated in certain circumstances which are summarised under the section "Duration and Termination of the Trust". In the event of the termination of the Trust, the Trust would have to distribute to the Unitholders their pro rata interest in the assets of the Trust. It is possible that at the time of such sale or distribution, certain investments held by the Trust will be worth less than the initial cost of acquiring such investments, resulting in a loss to the Unitholders. Moreover, any preliminary costs with regard to the Trust that had not yet been fully amortised would be debited against the Trust's assets at that time.

No Right to Control the Trust's Operation

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

Accounting and reporting standard risk

The accounting standards and regulatory requirements of financial reporting and information disclosure in some markets in which the Trust may invest may not follow international standards as there are differences between international standards and reporting practices in such markets. These differences may lie in areas such as different valuation methods of the properties or the assets, and the requirements for disclosure of information to investors. Therefore, the Trust may be forced to make investment decisions based on incomplete or incorrect data. If those data turn out to be incomplete or incorrect, the security in which the Trust has invested into could decline in value or become valueless. Investors may lose money in those circumstances.

The Manager intends to adopt HKFRS in drawing up the annual accounts of the Trust. However, the calculation of the Net Asset Value in the manner described in section 3.7 of this Explanatory Memorandum (which the Manager intends to adopt for the purpose of the calculation of various fees as described in this Explanatory Memorandum) may not necessarily be in compliance with generally accepted accounting principles, that is, HKFRS. In addition, in amortising the preliminary costs of the Trust in accordance with the section headed "Other Expenses", possible deviation from such accounting standards may occur but the Manager does not expect this issue to be material under normal circumstances. Accordingly, the Net Asset Value as described in this Explanatory Memorandum may not necessarily be the same as the net asset value to be reported in the annual accounts as the Manager may make necessary adjustments in the annual accounts to comply with HKFRS.

Risk of FATCA

Although the Manager and the Trustee will attempt in good faith to satisfy any due diligence, reporting, and withholding obligations imposed on the Trust pursuant to FATCA, many aspects of these obligations are subject to uncertainty and future revision, and no assurance can be given that the Trust will successfully comply with all such obligations. If the Trust fails to comply with its obligations under FATCA and therefore becomes subject to withholding tax with respect to its United States-sourced income and gains, the value of Units of the relevant Unitholders may be materially adversely impacted and the relevant Unitholders may suffer material loss.

Moreover, if Unitholders fail to provide certain information and documentation requested by the Manager and/or the Trustee in the course of fulfilling the Trust's obligations under FATCA, the Units of such Unitholders may be compulsorily redeemed from the Trust and certain adverse consequences, as described more fully below, may result. Please see the section "Implication of FATCA" under section 5 of this Explanatory Memorandum for further details.

Investors are strongly advised to consult their own tax advisors regarding the application of FATCA, both to the Trust and to themselves as Unitholders.

Conflicts of Interest

Potential conflicts of interest may arise as the Manager belongs to the same group as the Trustee. If such conflicts arises, the Trustee will, at all times, have regard in such event to its obligations to the Trust and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly.

The Trustee has established policies and internal procedures to ensure effective Chinese wall and segregation of duties between different legal entities within the same group of the Trustee.

Whilst the Manager and the Trustee are separate legal entities and operationally independent, there might be adverse implications for the business of the group and the service of the Trust if there is a financial catastrophe or insolvency of any member of the group.

For information relating to conflicts of interest, please refer to the section "Conflicts of Interest".

Dividends and distributions

Whether the Manager will pay dividends on Units of the Trust is subject to the Trust's distribution policy. There is no guarantee that any dividends will be distributed nor will there be a target level of dividend payout. A high distribution yield does not imply a positive or high return.

5. Taxation

The following comments are based on advice received by the Manager regarding current Hong Kong law and practice and are intended to assist investors. Investors should appreciate that as a result of changing law or practice, or unfulfilled expectations as to how the Trust or Unitholders will be regarded by revenue authorities in different jurisdictions, the taxation consequences for Unitholders may be otherwise than as stated below.

Investors should consult their professional advisers on the possible tax consequences of their subscribing for, purchasing, holding, selling or redeeming Units under the laws of the places of their citizenship, residence, ordinary residence or domicile.

The Trust

Profits Tax

The Trust has been authorised by the SFC as a collective investment scheme under Section 104 of the Securities and Futures Ordinance. Accordingly, profits of the Trust 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 exempted from Hong Kong profits tax under Section 26A(1A)(a)(i) of the Inland Revenue Ordinance for so long as the Trust is so authorised.

Stamp duty

Hong Kong stamp duty is ordinarily payable, *inter alia*, on the sale or purchase of Hong Kong stock. “Hong Kong stock” is defined in the Stamp Duty Ordinance (“SDO”) as “stock” (as further defined in the SDO) the transfer of which is required to be registered in Hong Kong.

No Hong Kong stamp duty is payable by the Trust on an issue of Units, as well as on redemption of Units where the redemption is effected by extinguishing the Units.

Other types of sales or purchases or transfers of Hong Kong stocks by the Trust should be liable to Hong Kong stamp duty at 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value, unless specific exemptions apply.

The Unitholders

Profits Tax

Unitholders should not be subject to Hong Kong profits tax in respect of income distributions of the Trust or in respect of any capital gains arising on a sale, redemption or other disposal of Units in accordance with the practice of the Inland Revenue Department (as at the date of this Explanatory Memorandum), except that Hong Kong profits tax (which is currently charged at the rate of 16.5% for corporations, and 15% for individuals or unincorporated business) may arise on any gains or profits sourced in Hong Kong made on the sale, redemption or other disposal of the Units where such transactions form part of a trade, profession or business carried on by a Unitholder in Hong Kong and such Units are not capital assets to the Unitholder.

There is no withholding tax on dividends and interest in Hong Kong.

Stamp Duty

No Hong Kong stamp duty is payable by a Unitholder in relation to an issue of Units or on the redemption of Units where the sale or transfer of the Units is effected by extinguishing the Units.

Other types of sales or purchases or transfers of the Units by the Unitholders should be liable to Hong Kong stamp duty at 0.1% (borne by each of the buyer and seller) on the higher of the consideration amount or market value, unless specific exemptions apply.

Implication of FATCA

FATCA was enacted by the United States government in 2010 aiming at combating tax evasion by United States taxpayers using offshore financial accounts. Under FATCA, non-United States financial institutions (i.e. "**foreign financial institutions"**, as defined in FATCA) ("**FFIs**") are required to sign agreements with the United States Internal Revenue Service ("**IRS**") to identify and disclose details regarding their United States account holders and to withhold tax for those United States account holders which do not consent to such disclosure.

Hong Kong and the United States have signed the intergovernmental agreement ("**IGA**") regarding FATCA on 13 November 2014. Hong Kong has opted for a Model II IGA with the United States.

Financial institutions in Hong Kong (as defined in the IGA) have to use know-your-customer procedures established in Hong Kong to identify US accounts and clients. They also have to (i) obtain consent of United States individual clients and entities for reporting their relevant account balances, gross amounts of relevant interest incomes, dividend incomes, withdrawals and identification details (such as name, address, the United States federal taxpayer identifying numbers) to the IRS annually and (ii) report the aggregate information of account balances, payment amounts and number of non-consenting United States accounts to the IRS.

Pursuant to the IGA, unless the Trust registers with the IRS and complies with the terms of the agreement with the IRS to collect and disclose to the IRS certain information with respect to its Unitholders and to satisfy certain other obligations, payments made to the Trust on or after 1 July 2014 of interest, dividends, and certain other categories of income from sources within the United States, and payments made on or after 1 January 2019 of proceeds from the sale of property that can produce interest or dividends from sources within the United States, will generally (subject to certain grandfathering rules) be subject to a 30% United States federal withholding tax. This withholding tax could materially impact the value of the relevant Units.

If the Trust collects and discloses the information required to be collected and disclosed pursuant to the IGA, then the Trust may not be subject to such withholding tax. However, 30% withholding tax may be applicable to certain payments qualifying as "withholdable payments" (as defined for purposes of FATCA) or, beginning no earlier than 1 January 2019, "foreign passthru payments" (as defined for purposes of FATCA) made by the Trust to Unitholders that fail to comply with reasonable requests for such information. The definition of "foreign passthru payment" in the US Treasury Regulation is currently pending and it is therefore not clear whether or to what extent distributions from the Trust would be considered foreign passthru payments.

Rules and principles similar to the foregoing may apply to partially or wholly owned subsidiaries or other vehicles in which the Trust may invest.

Circular 230 Disclosure: This document was not intended or written to be used, and cannot be used, for the purpose of avoiding any federal tax penalties that the United States Internal

Revenue Service may attempt to impose. As the discussion of US federal income tax matters contained herein could be viewed as a “marketed opinion” under the US Treasury regulations, we inform you that it was written to support the "promotion or marketing" of the matters set forth in this document. Each recipient of this document should seek advice based on that person’s particular circumstances from an independent tax advisor.

The Manager will follow the procedures in Annex I of the IGA to identify and establish the status of all Unitholders. The Manager will obtain consent of United States Unitholders (individuals and entities) and submit reports containing the information required under FATCA to the IRS annually. Personal data of Hong Kong residents who are Unitholders and not United States tax payers is not subject to reporting under FATCA. The Manager cannot provide these clients’ information to any unauthorized third party without obtaining clients’ prescribed consent or complying with the Personal Data (Privacy) Ordinance or the relevant laws, regulations, codes and guidelines (where applicable).

For details of the standard Model II IGA and the Annexes, please refer to the template promulgated at the relevant United States Department of the Treasury website.

The Manager or the Trustee has registered the Trust with the IRS within the time periods prescribed by FATCA in order to satisfy its obligations under the IGA.

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

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

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Trust, or a risk of the Trust being subject to withholding tax under FATCA, or if a Unitholder is a FFI, then the Trust, the Manager or its agents may, and acting in good faith and on reasonable grounds as permitted under applicable laws and regulations may (i) report the relevant information of such Unitholder to the IRS (subject to applicable laws or regulations in Hong Kong); (ii) exercise its right to request a transfer of Units to another person or to compulsorily redeem the Units held by such Unitholder pursuant to the terms of the Trust Deed; and/or (iii) bring legal action against such Unitholder for losses suffered by the Trust, if such Unitholder is certified with respect to its US tax status or fails to provide any information requested. The Manager is entitled, in effecting such redemption as described in (ii), to withhold, set-off or deduct any reasonable amounts from the redemption proceeds to be paid to such Unitholder. Any such withholding, set-off or deduction will be done in accordance with the applicable laws and regulations and the Manager shall act in good faith and on reasonable grounds.

Potential investors and Unitholders should consult their own tax advisors regarding the possible implications of FATCA on an investment in the Trust.

Implication of Common Reporting Standard

Automatic Exchange of Financial Account Information

Common Reporting Standard ("**CRS**") is promulgated by the Organization for Economic Co-operation and Development ("**OECD**") to facilitate the exchange of financial account information between relevant jurisdictions around the globe in an international and standardized manner. As part of Hong Kong's commitment in meeting the global standard for Automatic Exchange of Information ("**AEOI**") efforts in enhancing tax transparency and combating cross-border tax evasion, the Government of Hong Kong Special Administrative Region has enacted local legislations to implement CRS through Inland Revenue (Amendment) (No. 3) Ordinance 2016 (the "**CRS Ordinance**").

The CRS Ordinance requires financial institutions in Hong Kong to register the Trust's status as a "Reporting Financial Institution" with the Hong Kong Inland Revenue Department ("**IRD**"), perform due diligence on the account holders, obtain certain information from the account holders (including, but not limited to, tax residency and tax identification number etc.) and report information on any reportable accounts (as defined in the Inland Revenue Ordinance) to the IRD. IRD will then exchange the information collected with jurisdictions that have a Competent Authority Agreement ("**CAA**") with Hong Kong on an annual basis, to support tax compliance of partner jurisdictions and assist tax authorities of partner jurisdictions identify and take follow-up action against taxpayers who have not properly disclosed their offshore financial assets / income in their local jurisdictions. In parallel, IRD will also receive financial account information on Hong Kong tax residents from foreign tax authorities.

Notification with respect to the disclosure of information to tax authority

In order to comply with the requirements under CRS and any applicable laws, legislations or regulations, Unitholder would have to be informed and to agree that Manager may gather, store, use and process their personal data and information provided to the Manager as required for the purpose of automatic exchange of financial account information.

To fulfill the Manager's reporting obligations under CRS and any applicable laws, legislations or regulations, Unitholder account information may be reported by the Manager to the IRD, which may further be exchanged with the tax authorities of another jurisdiction pursuant to the legal provisions for exchange of financial account information provided under the Inland Revenue Ordinance.

Change in circumstances

Unitholder shall notify the Manager whenever there is any change in circumstances which affects the tax residency status or causes the information contained in the self-certification and documentation to become incorrect and provide the Manager with the updated self-certification and/or documentation within 30 days of such change in circumstances.

Inform Unitholder the potential needs for additional identification documents for CRS purposes

Unitholder would have to understand that the Manager reserves the right to request and the Unitholder has the obligation to provide to the Manager additional documentary evidence to document the tax residency status by the Manager during the course of the relationship.

Unitholder would have to understand that, if he/she fails to provide the Manager with any of the necessary information or to take action as specified by the Manager within the time period specified, the Manager may report the relevant account information based on indicia identified pursuant to the requirements under CRS and any applicable laws, legislations or regulations.

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

6. Fees and Expenses

6.1 Subscription, Redemption and Switching Charges

No redemption and switching charges will be charged by the Manager.

In respect of subscription charges to be charged by the Manager, please refer to sections 3.1 and 3.3 of this Explanatory Memorandum for details.

6.2 Trustee Fee

The Trustee is entitled to charge a trustee fee of (i) 0.4 per cent. per annum for each of HKD Class, USD Class 1, PRC RMB Class and PRC USD Class; and (ii) 0.35 per cent. per annum for USD Class 2, based on the respective Net Asset Value of the relevant class of Units.

6.3 Management Fee

The Manager is entitled to charge a management fee of up to 5.0 per cent. per annum of the Net Asset Value of each class of Units. The current management fee is 0.8 per cent. per annum for each of HKD Class, USD Class 1, USD Class 2, PRC RMB Class and PRC USD Class, based on the respective Net Asset Value of the relevant class as at each Valuation Day.

The management fee accrues daily and will be calculated as at each Valuation Day and is payable monthly in arrears out of the Trust. The Manager may, in its absolute discretion, increase the management fee of any class from the current level up to a maximum of 5.0 per cent. per annum of the Net Asset Value of the relevant class by giving not less than one month's prior written notice of such proposed increase to the Trustee and the Unitholders.

The Manager may, at its discretion and subject to the prior approval of the SFC on giving not less than one month's prior notice to Unitholders, appoint investment delegates and other agents to provide it with assistance in its management of the investments of the Trust. The Manager will be responsible for the fees of such appointed persons.

6.4 Custodian Fee

The Custodian is entitled to (among others) transaction charges at customary market rates and custody fees at different rates, largely depending on the investment instruments concerned as well as the markets where the Custodian is required to hold the Trust's assets. The current rate of the custody fee is up to 0.15 per cent. per annum. Such fees will be calculated monthly and will be paid monthly in arrears. The Custodian will also be entitled to reimbursement by the Trust for any out-of-pocket expenses or third-party charges incurred in the course of its duties. The custodian fee does not form part of the trustee fee as set out above.

6.5 Performance Fee

For the purpose of this section 6.5:

"**Daily Average Number of Units**" means, in respect of a Valuation Day in a Performance Period, the average of the number of Units of the Trust in issue on each Valuation Day during the period commencing on the start date of such Performance Period up to such Valuation Day.

"**Daily Excess NAV per Unit**" means, in respect of a Valuation Day in a Performance Period, if the Daily NAV per Unit for such Valuation Day is higher than the High Water Mark for such Performance Period, the excess portion of such Daily NAV per Unit over such High Water Mark.

"**Daily NAV per Unit**" means, in respect of a Valuation Day, the Net Asset Value per Unit on such Valuation Day (after reversal of any performance fee accrued on the previous Valuation Day).

"**High Water Mark**" in respect of a Performance Period, means 102.8% (or such other percentage as may from time to time be determined by the Manager with the approval of the Trustee and with not less than one months' notice to the relevant Unitholders of the relevant Class) of the higher of (a) the Initial Offer Price; and (b) the Net Asset Value per Unit as at the Performance Fee Valuation Day of the preceding Performance Period in respect of which a performance fee was last paid to the Manager (after deduction of all fees (including the performance fee paid in the preceding Performance Period, if any)).

"**Performance Fee Rate**" means, in respect of each Performance Period, 10%.

"**Performance Fee Valuation Day**" means, in respect of each Performance Period, the last Valuation Day of the relevant Performance Period.

"**Performance Period**" means each period commencing on 1 January of a year and ending on the last Valuation Day of that year (both days inclusive), except that the first Performance Period commenced on the date of the initial issue of Units and ending on the last Valuation Day of 2014 (both days inclusive).

"**Period-End Average Number of Units**" means, in respect of a Performance Period, the average of the number of Units of the Trust in issue on each Valuation Day in such Performance Period.

"**Period-End Excess NAV per Unit**" means, in respect of a Performance Period, if the Period-End NAV per Unit for such Performance Period is higher than the High Water Mark for such Performance Period, the excess portion of such Period-End NAV per Unit over such High Water Mark.

"**Period-End NAV per Unit**" means, in respect of a Performance Period, the Net Asset Value per Unit as at the Performance Fee Valuation Day of such Performance Period, after deduction of all fees (excluding the performance fee payable in such Performance Period, if any).

Performance fee payment

The Manager is also entitled to charge a performance fee for each Performance Period. The performance fee is only payable annually after the end of each Performance Period on a high-on-high basis (i.e. when the Period-End NAV per Unit of a Performance Period is higher than the High Water Mark in that Performance Period), in accordance with the following formula:

Performance fee payable = Performance Fee Rate x Period-End Excess NAV per Unit x Period-End Average Number of Units

The performance fee (if any) chargeable in respect of a Performance Period will be paid to the Manager as soon as practicable after the end of such Performance Period.

Illustration of performance fee chargeable over a period of 4 consecutive years

The payment of performance fee is illustrated by the following examples. The examples below are shown for illustration purposes only and may contain simplifications.

Assuming the Period-End Average Number of Units for each year is 1,000.

	Year y	**Year (y+1)**	**Year (y+2)**	**Year (y+3)**
(1) Period-Start NAV per Unit Note 1	HK$100	HK$109.28 Note 2	HK$105	HK$108
(2) Period-End NAV per Unit	HK$110	HK$105	HK$108	HK$120
(3) High Water Mark	HK$102.8	HK$112.34 Note 3	HK$112.34	HK$112.34
(4) Is Period-End NAV per Unit > High Water Mark?	Yes	No	No	Yes
(5) Period-End Excess NAV per Unit	HK$7.2	Nil	Nil	HK$7.66
(6) Amount of performance fee to be charged per Unit (= 10% x Period-End Excess NAV per Unit)	HK$0.72	Nil	Nil	HK$0.766
(7) Total amount of performance fee to be charged (= 10% x Period-End Excess NAV per Unit x 1,000)	HK$720	Nil	Nil	HK$766

Year y: the Period-End NAV per Unit of Year y <u>outperforms</u> compared to the Period-Start NAV per Unit of Year y. Since the Period-End NAV per Unit of Year y is higher than the High Water Mark of Year y, an amount of performance fee per Unit of HK$0.72 is to be charged and the total amount of performance fee to be charged is HK$720. The High Water Mark of Year (y+1) is increased accordingly.

Year (y+1): the Period-End NAV per Unit of Year (y+1) <u>underperforms</u> compared to the Period-Start NAV per Unit of Year (y+1). Since the Period-End NAV per Unit of Year (y+1) is lower than the High Water Mark of Year (y+1), no performance fee is charged and the High Water Mark of Year (y+2) remains unchanged.

Year (y+2): the Period-End NAV per Unit of Year (y+2) <u>outperforms</u> compared to the Period-Start NAV per Unit of Year (y+2). No performance fee is paid notwithstanding that the outperformance in Year (y+2) because the Period-End NAV per Unit of Year (y+2) is below the High Water Mark of Year (y+2). The High Water Mark of Year (y+3) remains unchanged.

Year (y+3): the Period-End NAV per Unit of Year (y+3) <u>outperforms</u> compared to the Period-Start NAV per Unit of Year (y+3). Since the Period-End NAV per Unit of Year (y+3) is higher than the High Water Mark of Year (y+3), an amount of performance fee per Unit of HK$0.766 is to be charged and the total amount of performance fee to be charged is HK$766. The High Water Mark of (y+4) is increased accordingly.

<u>Notes:</u>

1. Period-Start NAV per Unit, in respect of a Performance Period, means the Net Asset Value per Unit as at the first Valuation Day of such Performance Period (net of fees paid in respect of the previous Performance Period).

2. The Period-Start NAV per Unit of Year (y+1) is the Period-End NAV per Unit of Year y net of the performance fee paid in respect of Year y, i.e. HK$110 – HK$0.72 = HK$109.28.

3. The High Water Mark per Unit of Year (y+1) is set as 102.8% of the Period-End NAV per Unit of Year y net of the performance fee paid in respect of Year y, i.e. 102.8% x (HK$110 – HK$0.72) = HK$112.34.

Accrual and reversal of performance fee

The performance fee shall be accrued on each Valuation Day throughout the relevant Performance Period for the purpose of subscription and/or redemption of Units as of the relevant Valuation Day only. If the Daily NAV per Unit on a Valuation Day exceeds the High Water Mark of the relevant Performance Period, a performance fee accrual on such Valuation Day will be made. If not, no performance fee accrual will be made.

For Units subscribing or redeeming during the relevant Performance Period, they will be based on the Net Asset Value per Unit on the relevant subscription day or redemption day (as the case may be, after accrual of such performance fee). In that case, any accrued performance fee with respect to such Units will be crystallised on the relevant redemption day and become payable as soon as practicable after the end of the relevant Performance Period. The High Water Mark is not reset on the relevant redemption day at which the performance fee is crystallised following the redemption of Units.

On each Valuation Day, the accrual made on the previous Valuation Day (if any) will be reversed and a new performance fee accrual will be calculated and made in accordance with the above.

The daily accrual of performance fee is calculated on each Valuation Day in accordance with the following formula:

$$\text{Performance fee accrued on a Valuation Day} = \frac{\text{Performance Fee Rate x Daily Excess NAV per Unit x Daily Average Number of Units x the actual number of days lapsed in the relevant Performance Period}}{\text{365 (or, in the case where the relevant Performance Period is a leap year, 366)}}$$

During the relevant Performance Period, the price at which Unitholders subscribe or redeem Units at different times will be affected by performance of the Trust and this could have a positive or negative effect on the performance fee borne by them. Accordingly, if the Net Asset Value per Unit at redemption is below the High Water Mark of the relevant Performance Period, no performance fee will be charged against the Unitholder whose Net Asset Value per Unit at subscription is lower than the Net Asset Value per Unit at redemption. On the contrary, if the Net Asset Value per Unit at redemption is above the High Water Mark of the relevant Performance Period, notwithstanding that the Unitholder whose Net Asset Value per Unit at subscription is higher than the Net Asset Value per Unit at redemption, he may still need to bear the performance fee as reflected in the Redemption Price.

There is no equalisation arrangement in respect of the calculation of the performance fee. That means there is no adjustment of equalisation credit or equalisation losses on an individual Unitholder basis based on the timing the relevant Unitholder subscribes or redeems the relevant Units during a Performance Period. The Unitholder may be advantaged or disadvantaged as a result of the calculation methodology for the performance fee. A charge of performance fee may have been borne by a Unitholder notwithstanding the Unitholder concerned may have suffered a loss in his investment in the Units. On the other hand, a Unitholder may not be subject to any performance fee notwithstanding the Unitholder concerned may have realised a gain in investment in the Units.

Illustration of performance fee accrual and reversal over a Performance Period

The accrual and reversal of performance fee over a Performance Period is illustrated by the following examples. The examples below are shown for illustration purposes only and may contain simplifications. We assume that the High Water Mark for the Performance Period is HK$110.

		Day 30	Day 31	…	Day 363	Day 364	Day 365 (Performance Fee Valuation Day)
(1)	Daily NAV per Unit	HK$105	HK$120		HK$108	HK$115	HK$113
(2)	Is Daily NAV per Unit > High Water Mark?	No	Yes		No	Yes	Yes
(3)	Amount of performance fee accrued per Unit up to such day (= 10% x Daily Excess NAV per Unit x the actual number of days lapsed in the relevant Performance Period ÷ 365 (rounded up to 4 decimal places))	Nil	HK$0.0849		Nil	HK$0.4986	HK$0.3000[Note 1]
(4)	Issue Price or Redemption Price per Unit (after accrual of the performance fee) (= Daily NAV per Unit – Amount of performance fee accrued per Unit)	HK$105	HK$119.9151		HK$108	HK$114.5014	HK$112.7

If an Unitholder subscribes a Unit at the Issue Price of HK$105 on Day 30 and redeems such Unit at the Redemption Price of HK$108 on Day 363, as the Net Asset Value per Unit at redemption is below the High Water Mark, the performance fee is not charged against the Unitholder whose Net Asset Value per Unit at subscription is lower than the Net Asset Value per Unit at redemption.

If an Unitholder subscribes a Unit at the Issue Price of HK$119.9151 on Day 31 and redeems such Unit at the Redemption Price of HK$114.5014 on Day 364, as the Net Asset Value per Unit at redemption is higher the High Water Mark, the performance fee is charged against the Unitholder and the Unitholder still needs to bear the performance fee as reflected in the Redemption Price notwithstanding that the Unitholder's Net Asset Value per Unit at subscription is higher than the Net Asset Value per Unit at redemption.

Note:

1. The performance fee accrued per Unit on Day 365 (which is the Performance Fee Valuation Day) will be paid to the Manager as soon as practicable after the end of such Performance Period.

6.6 Other Expenses

The Trust will not be responsible for any advertising or promotional expenses of the Trust nor any commission, remuneration or other sums payable by the Manager to any agent or other person in respect of the issue or sale of any Units. Such expenses will be borne by the Manager.

The Trust will bear all costs and expenses relating to the Trust including but not limited to stamp and other duties, governmental charges, brokerages, commissions, exchange costs and commissions (which, for the avoidance of doubt, excludes commission, remuneration or other sums payable by the Manager to any agent or other person in respect of the issue or sale of any Units), 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, other transaction-related expenses, charges and expenses of its legal counsel, auditors and other service providers, any disbursements or out-of-pocket expenses properly incurred on behalf of the Trust by any of its service providers, all fees, costs and expenses properly incurred by the Manager and the Trustee in connection with the establishment, operation or existence of the Trust (such as the operation system relating to the Trust), the expenses incurred in convening and holding meetings of Unitholders, printing and distributing annual and half- yearly reports, accounts and other circulars relating to the Trust and the expenses of publishing Unit prices, the costs incurred in the preparation, printing and updating of any offering document, the costs incurred in the preparation of supplemental deeds, the costs charged by the Trustee in terminating the Trust and all other costs, charges and expenses properly incurred in the administration and investment activities of the Trust following the termination of the Trust. The Trust will also be responsible for the fees of the Administrator, Custodian, Registrar and Auditors.

The preliminary costs of the Trust will be fully amortised on a straight line basis over the first 5 years of the Trust's operation and charged to the Trust. Investors should also note that under HKFRS, preliminary costs should be expensed as incurred and that the aforementioned amortisation method of the expenses of establishing the Trust is not in accordance with HKFRS; however, the Manager has considered the impact of such non- compliance and has considered that it will not have a material impact on the financial statements of the Trust. To the extent that the accounting basis adopted by the Trust deviates from HKFRS, the Manager may make necessary adjustments in the annual financial statements for the financial statements to be in compliance with HKFRS. Any such adjustments will be disclosed in the annual accounts, including a reconciliation. Otherwise, non-compliance with HKFRS may result in the auditors issuing a qualified or an adverse opinion on the annual accounts depending on the nature and level of materiality of the non-compliance.

7. General Information

7.1 Distribution Policy

The Manager has discretion as to whether or not to make any distribution, the frequency of distribution and the amount of distribution. The Manager currently does not intend to make any distribution for the Trust. It is the current intention of the Manager that income earned by the Trust will be reinvested in the Trust and reflected in the increased value of Units. No distribution will be paid out of the capital of the Trust or effectively out of the capital of the Trust. This does not preclude the Manager from making a distribution at any time in the future if the Manager considers it to be appropriate, subject to the prior approval of the SFC (if required) and by giving not less than one month's prior notice to Unitholders.

7.2 Trust Deed

The Trust was constituted by the Trust Deed entered into between China Life Franklin Asset Management Co., Limited as Manager and China Life Trustees Limited as Trustee and is governed by the laws of Hong Kong. The Trust Deed contains provisions for the indemnification of the Trustee and the Manager and their relief from liability in certain circumstances. Nothing in the Trust Deed shall exempt either the Trustee or the Manager (as the case may be) from any liability to Unitholders imposed under Hong Kong law or breaches of trust through fraud or negligence, nor may they be indemnified against any such liability by Unitholders or at Unitholders' expense.

Unitholders and prospective investors are advised to review the terms of the Trust Deed which govern their investment in the Trust. Please refer to section 7.9 of this Explanatory Memorandum for details on how you can inspect or purchase a copy of the Trust Deed from the Trustee.

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification (i) is necessary to make possible compliance with fiscal or other statutory, regulatory or official requirement, (ii) does not materially prejudice the Unitholders' interests, does not to any material extent release the Trustee, the Manager or any other person from any liability to the Unitholders and (with the exception of the costs incurred in connection with the relevant supplemental deed) does not increase the costs and charges payable from the assets of the Trust or (iii) is necessary to correct a manifest error. In all other cases, material changes require the sanction of an Extraordinary Resolution of the Unitholders. The SFC must also give its prior approval to material changes to the Trust Deed.

7.3 Report, Accounts and Statements

The financial year end of the Trust is 31 December in each year. Audited accounts of the Trust will be prepared according to HKFRS. Copies of the annual report and audited accounts (in English only) will be made available to Unitholders within four months of the financial year-end.

The Trustee will also make available unaudited semi-annual reports (in English only) for the first six calendar months ending on 30 June in each financial year to Unitholders within two months after the end of such period.

The Trustee will notify Unitholders of where such reports and accounts, in printed and electronic forms, can be obtained once they become available. Such notices will be sent to Unitholders within four months after the end of the financial year in the case of audited annual accounts, and within two months after the end of the period to which they relate in the case of unaudited semi-annual reports. Once issued the reports and accounts will be available in hardcopy for inspection at the Trustee's office free of charge during normal working hours (hardcopies are also available for Unitholders to take away free of charge upon request).

At least one month's prior notice will be provided to Unitholders if there will be any change to the mode of distribution of reports and accounts described above.

7.4 Duration and Termination of the Trust

The Trust may be terminated by the Trustee if any of the following events shall occur, namely:

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

(b) in the opinion of the Trustee, the Manager has failed to perform or is incapable of performing its duties under the Trust Deed satisfactorily or the Manager has done such thing which, in the opinion of the Trustee, is calculated to bring the Trust into disrepute or is harmful to the interests of the Unitholders; or

(c) any law is passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Trust; or

(d) the Trustee is unable to find a person acceptable to the Trustee to act as the new Manager within 30 days after the removal of the Manager; or

(e) the Trustee has decided to retire but within 30 days of the Trustee giving notice to the Manager of its desire to retire the Manager is unable to find a suitable person who is willing to act as trustee.

The Trust may be terminated by the Manager in its absolute discretion by one month's notice in writing to the Trustee and one month's prior written notice to Unitholders if:

(a) the aggregate Net Asset Value of all the Units outstanding is less than HKD50,000,000; or

(b) any law is passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Trust.

The Trust may be terminated at any time in the event that an Extraordinary Resolution to that effect is passed at a duly convened meeting of Unitholders.

Notice of the termination of the Trust 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 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 12 calendar months from the date upon which the same became payable be paid into court, subject to the right of the

Trustee to deduct therefrom any expenses it may incur in making such payment.

7.5 Conflicts of Interest

The Manager and the Trustee may, from time to time, act as manager, investment delegate, trustee or such other capacity in connection with any collective investment scheme separate and distinct from the Trust and retain any profit or benefit made in connection therewith.

In addition:

(a) The Manager or any Connected Person (as defined below) may purchase and sell investments for the account of the Trust 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 Trust.

(c) The Trustee or the Manager may become the owner of Units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee or the Manager.

(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 as part of the Trust.

(e) If cash forming part of the Trust's assets is deposited with the Trustee, the Custodian, the Manager, any investment delegate or any of their Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business.

(f) The Manager, any investment delegate or any Connected Person of any of them may, with the prior written approval of the Trustee, act as principal and sell or deal in the sale of investments of the Trust or otherwise deal as principal with the Trust.

(g) In transacting with brokers or dealers connected to the Manager, any investment delegate or any Connected Person of any of them, the Manager must ensure that it complies with the following obligations:

(1) such transactions are executed at arm's length and in the best interests of the Unitholders;

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

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

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

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

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

(h) Neither the Trustee nor the Manager nor any Connected Person shall be liable to account to each other or to the Trust 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 their Connected Persons may, in the course of business, have potential conflicts of interest with the Trust. The Trustee has established policies in relation to the identification and monitoring of potential conflicts of interest situations, to ensure investors' interests are given priority at all times. Key duties and functions must be appropriately segregated and there are strict policies and dealing procedures designed to avoid, monitor and deal with conflicts of interests situations, such as rules and procedures in relation to order allocation, best execution, receipt of gifts or benefits, retention of proper records, prohibition of certain types of transactions and handling of investor's complaints. The Trustee has designated staff to monitor the implementation of such trading policies and dealing procedures with clear reporting lines to and oversight by senior management. In any event, the Trustee will, at all times, have regard in such event to its obligations to the Trust and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly.

For the purposes of this section, "**Connected Person**" in relation to a company means:

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

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

(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).

Where the Manager invests in shares or units of a collective investment scheme managed by the Manager, its delegates, or any Connected Persons, the manager of the scheme in which the investment is being made 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.

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

Subject to paragraphs (g)(i)-(vi) above, the Manager, any investment delegate or any of their respective delegates or Connected Person may receive, and are entitled to retain, research products and services (known as soft dollar benefits) which are of demonstrable benefit to the Trust (as may be permitted under 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 the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker. The Manager will consider several factors deemed relevant in determining whether a broker will provide best execution, which include, among others, the provision of research products and investment ideas, introduction to potential investee companies, and access to investment opportunities and initial public offerings and placements which are for the benefit of the Trust. The commission rates charged by the brokers in these circumstances may be higher than those charged by other brokers who do not offer such services, or by the same broker if it only provides execution services. Examples of research products and services that the Manager may receive from brokers include analyses and reports concerning industries, securities and, economic factors and trends.

The Trust generally will pay customary institutional full service brokerage rates where execution, research and other services cannot be unbundled for the same commission rate. In particular cases where execution, research and other services can be unbundled, the Trust will pay a brokerage commission that is discounted from customary institutional full service brokerage rates if no research or other services are provided in addition to brokerage execution. In addition, the Manager has the discretion to cause the Trust to pay brokerage commissions in excess of discounted rates, and up to customary institutional full service brokerage rates, for quality brokerage execution and the provision of research or other appropriate services that the Manager determines to be beneficial to the Trust.

The services of the Trustee provided to the Trust 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 Trust 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.

7.6 Restrictions on Unitholders

The Manager has power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units in the Trust are acquired or held by a non-qualified person. A non-qualified person includes:-

(a) a US Person; or

(b) any individual under the age of 18; or

(c) any person whose holding of Units would be a breach of the law or requirements of any country/region or governmental authority in circumstances which, in the Manager's opinion, might result in the Trust suffering any adverse effect which the Trust might not otherwise have suffered; or

(d) any person or persons, in circumstances which, in the Manager's opinion, may result in the Trust incurring any tax liability or suffering any other pecuniary disadvantage which the Trust might not otherwise have incurred or suffered, including, for the avoidance of doubt, any Unitholder that refuses to comply with the Manager or Administrator's request for information related to fulfilling the Trust's obligations under FATCA, as well as any Unitholder that is a "foreign financial institution" (as defined in FATCA) and that is not exempt from, or deemed compliant with, the requirements of FATCA and that is a "nonparticipating FFI" that does not agree to provide similar information to the United States and/or the jurisdiction in which it is resident for tax purposes; or

(e) such other non-qualified persons as determined by the Manager from time to time.

If it comes to the notice of the Manager that any Units are so held by such a person, the Manager may give notice to such person requiring the redemption or transfer of 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 such restriction is required either to deliver to the Trust a written request for redemption of his Units in accordance with the Trust Deed or to transfer his Units to a person who would not thereby be a US Person or a non-qualified person. The Manager is entitled, in effecting redemption, to withhold, set-off or deduct any reasonable amounts from the redemption proceeds paid to such Unitholder. Any such compulsory redemption, withholding, set-off or deduction will be effected in accordance with applicable laws and regulations and the Manager shall act in good faith and on reasonable grounds.

7.7 Voting Rights

Meetings of Unitholders may be convened by the Manager or the Trustee or where the Unitholders of one-tenth or more in value of the Units in issue require such a meeting to be convened. Unitholders will be given not less than 21 days' notice of any meeting (in which an Extraordinary Resolution is proposed) or on not less than 14 calendar days' notice (in respect of all other meetings).

The quorum for the transaction of business, except for the purpose of passing an Extraordinary Resolution, will be Unitholders present in person or by proxy registered as holding not less than 10 per cent. of the Units for the time being in issue. The quorum for passing an Extraordinary Resolution will be Unitholders present in person or by proxy registered as holding not less than 25 per cent. of the Units for the time being in issue.

An extraordinary general meetings of Unitholders should be called for the following purposes: (i) to modify, alter or add to the Trust Deed (except when the proposed alteration (x) is necessary to make possible compliance with fiscal or other statutory, regulatory or official requirements, (y) does not materially prejudice the Unitholders' interest, does not to any material extent release the Trustee, the Manager or any other person from any liability to the Unitholders and does not increase the costs and charges payable from the assets under the Trust, or (z) is necessary to correct a manifest error, then the Trust Deed may be altered by the Manager and the Trustee without consulting the Unitholders); (ii) to increase the maximum fees paid to the Manager and/or the Trustee; (iii) to terminate the Trust (unless the means of termination of the Trust are set out in the Trust Deed in which case termination must be effected as required) or (iv) to impose other types of fees.

At every meeting, every Unitholder who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative shall have one vote for every undivided share represented by the Units of which he/it is the Unitholder or, in the case of accumulation Units, the number of votes every Unitholder has shall be proportionate to the value of the Units held by them. In the case of joint Unitholders, the senior of those who tenders a vote (in person or by proxy) will be accepted to the exclusion of the other joint Unitholders and seniority is determined by the order in which the names appear on the register of Unitholders.

Voting at meetings of Unitholders shall be conducted in accordance with the relevant provisions of the Code on Unit Trusts and Mutual Funds issued by the SFC.

7.8 Anti-Money Laundering Regulations

As part of the Manager's and/or the Trustee's responsibility for the prevention of money laundering, the Manager/Trustee may require a detailed verification of an investor's identity and the source of payment of application monies. Depending on the circumstances of each application, a detailed verification might not be required where (a) the applicant makes the payment from an account held in the applicant's name at a recognised financial institution; or (b) the application is made through a recognised intermediary. These exceptions will only apply if the financial institution or intermediary referred to above is within a country/region recognised as having sufficient anti-money laundering regulations.

The Manager and the Trustee reserve the right to request such information as is necessary to verify the identity of an applicant and the source of payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the Manager or the Trustee may refuse to accept the application and the subscription monies relating thereto and refuse to pay any redemption proceeds if an applicant for Units delays in producing or fails to produce any information required for the purposes of verification of identity or source of fund.

7.9 Material Agreements

Copies of the Trust Deed are available for inspection at the office of the Trustee during normal business hours free of charge and copies may be purchased at a reasonable charge.

Once published, copies of the annual reports and semi-annual reports of the Trust will also be available for inspection at the office of the Trustee during normal business hours.

7.10 Liquidity Management

The Manager has established a liquidity management policy which enables it to identify, monitor and manage the liquidity risks of the Trust and to ensure that the liquidity profile of the investments of the Trust will facilitate compliance with the Trust'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 Trust. These measures seek to ensure fair treatment and transparency for all investors.

The liquidity management policy involves monitoring the profile of investments held by the Trust on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the section headed "Redemption of Units", and will facilitate compliance with the Trust'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 Trust under normal and exceptional market conditions. The Manager reports the quantitative liquidity profile to the SFC in a quarterly manner and performs stress test on liquidity management on an annual basis.

As a liquidity risk management tool, the Manager may limit the number of Units of the Trust redeemed on any Dealing Day to Units representing 10% (or such higher percentage as the Manager may determine in respect of the Trust) of the total Net Asset Value or the number of Units in the Trust then in issue (subject to the conditions under the heading entitled "Redemption of Units" in the section headed "Subscription and Redemption of Units".

8. Procedure for Application

8.1 Method of Application

Applications for subscription of Units must be made on the Subscription Form which is available from the Trustee. Applications should be sent by post or by fax to the Trustee at the business address or fax number set out in the Subscription Form. Please refer to section 3.6 of this Explanatory Memorandum for details relating to subscriptions made by fax instructions.

The Manager reserves the right to reject any application in whole or in part in which case the subscription monies will be returned (without interest) by cheque or telegraphic transfer at the cost and risk of the investor.

8.2 Payment Procedure

No money should be paid to any intermediary in Hong Kong who is not licensed or registered to carry on the regulated activity of dealing in securities under Part V of the Securities and Futures Ordinance. Third party cheques and cash are not accepted.

Units will not usually be issued unless and until the signed application for subscription of Units has been received (whether by fax or by post), and subscription monies have been received in full in cleared funds by or on behalf of the Trustee, in which case the relevant Units will be issued by reference to the Issue Price of Units determined as at the close of the Dealing Period during which monies are actually received.

The Trustee may, however, exercise its discretion to accept late payment of subscription monies, provisionally allot Units by reference to the Issue Price of Units at the close of the relevant Dealing Period (as the case may be) and charge interest on such overdue monies until payment is received in full, at such rate as the Trustee thinks appropriate. However, if payment of subscription monies is not received within such period as determined by the Trustee (which shall not be more than 3 Business Days after the close of the relevant Dealing Period), the Trustee may, or the Manager may request the Trustee to, cancel such issue of Units. Upon such cancellation, the relevant Units shall be deemed never to have been issued and the applicant shall have no right to claim in respect thereof against the Trustee or the Manager. The Trustee shall be entitled to claim from the applicant and retain for its own account a cancellation fee, determined by the Trustee in its absolute discretion, representing any administrative, foreign exchange or other costs involved in processing and cancelling such application.

All payments should be made by cheque, direct transfer, telegraphic transfer or banker's draft. Cheques and banker's drafts should be crossed "a/c payee only, not negotiable" and made payable to "China Life Trustees Limited", stating the name of the Trust, and sent with the Subscription Form. Payment by cheque is likely to cause delay in receipt of cleared funds and Units generally will not be issued until the cheque is cleared. Any costs of transfer of application monies to the Trust will be payable by the applicant. Currency conversion will be subject to availability of the currency concerned.

Details of payments by telegraphic transfer are set out in the Subscription Form.

Units issued by the Trust will be held for investors in registered form. Certificates will not be issued. A contract note will normally be issued by the Registrar as soon as practicable after the relevant Valuation Day upon acceptance of an application for subscription and will be forwarded by ordinary post (at the risk of the person(s) entitled to such contract note).