

**W.I.S.E. – CSI 300 China Tracker<sup>®</sup> \***  
**(\*This is a synthetic ETF)**  
**a sub-fund of the World Index Shares ETFs**  
**(stock code : 2827)**

**PROSPECTUS**

**30 October 2015**

**IMPORTANT: If you are in doubt about the contents of this Prospectus, you should seek independent professional financial advice.**

The Stock Exchange of Hong Kong Limited (“**SEHK**”), the Securities and Futures Commission (“**SFC**”) and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

## **IMPORTANT INFORMATION FOR INVESTORS**

Investors should note that an investment in the Sub-Fund is not the same as an investment in the underlying A Shares of the CSI 300 Index. The Sub-Fund primarily invests in A Share through A-Share access products, AXP, each of which is a derivative instrument linked to an A Share or a basket of A Shares and the value of such AXP depends entirely on the credit risk of the issuers. Also, as the Manager is a QFII, the Manager will invest directly in the PRC A Shares on behalf of the Sub-Fund to the extent of such portion of the Manager's QFII investment quota as the Manager may allocate to the Sub-Fund. The Sub-Fund may also invest, and have direct access to, certain eligible A Shares of PRC companies listed on the Shanghai Stock Exchange (A Shares that are SSE Securities) via the Shanghai-Hong Kong Stock Connect (as defined in "Definition" section on page 9). If any of the AXP issuers fails to perform the obligations under its AXP, the Sub-Fund may suffer losses which may be equal to the full value of such AXP. The Sub-Fund's returns may deviate from the CSI 300 Index due to factors such as imperfect correlation between the AXP in which the Sub-Fund invest and the underlying A Shares, the need for the Manager to adopt a representative sampling strategy, the fees and expenses of the Sub-Fund and foreign exchange costs caused by the fact that the CSI 300 Index is denominated in RMB whilst the base currency of the Sub-Fund is Hong Kong dollars and that of the AXP may be in US dollars (or other currency being its base currency). Please note that the Sub-Fund may suffer a greater tracking error than a typical exchange traded index fund (which invests directly in constituent securities of the underlying index) because although the Sub-Fund may (i) invest up to the QFII investment quota allocated to the Sub-Fund from time to time in acquiring A Shares using the Manager's QFII investment quota and (ii) invest and have direct access to A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect, it does not, at present, primarily invest in the underlying A Shares of the CSI 300 Index directly. Instead, the Sub-Fund currently invests primarily in the underlying A Shares of the CSI 300 Index indirectly via investing in AXP. Investors' attention is drawn to the "Investment Strategy of the Sub-Fund" section on pages 17-18. Investors should also read the "Risk Factors" section on pages 19 to 40 carefully.

For reasons set out in paragraph (m) of the "Risk Factors" section on page 26, the Sub-Fund may have a limited duration. The operation of the Sub-Fund also depends on the ability of the QFII to buy and sell A Shares, for example, the availability of the QFII investment quota and the quota limitation applicable to the Shanghai-Hong Kong Stock Connect. Investors' attention is drawn to paragraph (o) of the "Risk Factors" section on pages 27 to 30.

It is possible that the Units in the Sub-Fund may trade at a premium or at a discount to the Net Asset Value of the Units. Investors' attention is drawn to paragraph (w) of the "Risk Factors" section on page 35.

On 14 November 2014, the Ministry of Finance of the PRC, the State Administration of Taxation of the PRC and the CSRC issued "Caishui [2014] No. 79 - The Circular Concerning the issue of temporary exemption from the imposition of capital gain tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII" (the "PRC CGT Circular") along with "Caishui [2014] No. 81 - The Circular on Issues Relating to the Tax Policy of the Pilot Inter-connected Mechanism for Trading on the Shanghai and Hong Kong Stock Markets" (the "PRC Tax

Policy for Shanghai-Hong Kong Stock Connect Circular”). Pursuant to the PRC CGT Circular, effective from 17 November 2014, capital gains derived by a QFII or RQFII from dealings in A Shares will be exempt from enterprise income tax; such exemption, however, will not apply to capital gains derived by a QFII or RQFII from transactions prior to 17 November 2014. Pursuant to the PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular, effective from 17 November 2014, Hong Kong market investors, both enterprises and individuals, investing in A Shares via Shanghai-Hong Kong Stock Connect, are exempt from income tax on capital gains derived from the sales of A Shares traded in the Shanghai Stock Exchange.

Accordingly, (i) from 17 November 2014 onwards (or, with regard to the Sub-Fund's direct investment in A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect, the date from which such investment commences) until further notice, the Sub-Fund or the AXP issuer will not set aside any provision for Capital Gain Tax derived from the gains from dealings in A Shares by a QFII in relation to the underlying A Shares to which an AXP is linked or by the Sub-Fund through the Manager's QFII investment quota or by the Sub-Fund via the Shanghai-Hong Kong Stock Connect; and (ii) the Manager (in its capacity as QFII) and a QFII in relation to which the underlying A Shares to which an AXP was linked would each be subject to tax on gains from dealings in A Shares derived up to and including 14 November 2014. The Manager (in its capacity as QFII) and the QFII would pass on the liability of such taxes to the Sub-Fund. In other words, the Sub-Fund would be the ultimate party which bears the risks relating to the tax liability of the Manager and the QFIIs (including the relevant QFII and the Manager) in relation to the underlying A Shares. The Sub-Fund or the AXP issuer (depending on the tax arrangement between the Sub-Fund and the relevant AXP issuer) has set aside a provision of 10% to meet this Capital Gain Tax liability. The Manager will assess the Capital Gain Tax provision approach on an on-going basis. Should the PRC tax policies in respect of the Capital Gain Tax change, the Manager may decide to set aside provision to meet any potential Capital Gain Tax liability in the future. Also, a QFII, and the Sub-Fund in investing in A Shares that are SSE Securities directly via the Shanghai-Hong Kong Stock Connect, would be subject to a Distribution Tax of 10% on all cash dividends payment or cash proceeds which were referable to dividends or distributions arising from the A Shares. This Distribution Tax is levied by the PRC tax authority and deducted and withheld by the relevant PRC companies who issued the relevant A Shares from the amount of dividends or distributions paid by such PRC companies. The Sub-Fund is the ultimate party that bears this Distribution Tax. It may be possible for tax treaty residents to apply for exemption of Capital Gain Tax or reduction in Distribution Tax under applicable tax treaties and seek a tax refund. Any future changes in the taxation policies in respect of QFII's or the Sub-Fund's investment in A Shares in the PRC will impact on the Sub-Fund's returns. Investors' attention is drawn to paragraph (x) of “Risk Factors” section on pages 35 to 37.

This Prospectus has been prepared in connection with the offer in Hong Kong of Units in the Sub-Fund, a sub-fund under the umbrella fund, World Index Shares ETFs (the “**Fund**”), and managed by BOCI-Prudential Asset Management Limited (the “**Manager**”).

The Manager accepts full responsibility for the information contained in this Prospectus as being accurate at the date of publication and confirms, having made all reasonable enquiries, that, to the best of its knowledge and belief, as at the date of publication, there are no other facts the omission of which would make any statement in this Prospectus misleading.

Neither the delivery of this Prospectus or the latest available Product Key Facts Statement nor the offer or issue of Units in the Sub-Fund shall under any circumstances constitute a representation that the information contained in this Prospectus is correct as of any time subsequent to such date. This Prospectus and the Product Key Facts Statement may from time to time be updated. Intending applicants for Units of the Sub-Fund should ask the Manager if any supplements to this Prospectus or any later Prospectus or later Product Key Facts Statement have been issued. Investors should note that any amendment or addendum to this Prospectus and/or the Product Key Facts Statement will only be posted on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).

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

The Fund and the Sub-Fund have been authorized by the SFC in Hong Kong. SFC authorization is not a recommendation or endorsement of the Fund or the Sub-Fund, nor does it guarantee the commercial merits of the Fund or the Sub-Fund or their performance. It does not mean the Fund or the Sub-Fund is suitable for all investors nor is it an endorsement of the Fund or the Sub-Fund's suitability for any particular investor or classes of investor. The SFC takes no responsibility for the financial soundness of the Fund and the Sub-Fund or for the accuracy of any of the statements made or opinions expressed in this Prospectus.

No action has been taken to permit an offering of units or the distribution of this Prospectus (or any Product Key Facts Statement) in any jurisdiction other than Hong Kong where action would be required for such purposes. Accordingly, this Prospectus and the Product Key Facts Statement may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized.

In particular:

- (a) Units in the Sub-Fund have not been registered under the United States Securities Act of 1933 (as amended) and, except in a transaction which does not violate such Act, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or for the benefit of a US Person (as defined in Regulation S under such Act).
- (b) The Sub-Fund has not been and will not be registered under the United States Investment Company Act of 1940 as amended.
- (c) Units in the Sub-Fund may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An "ERISA Plan" is any retirement plan subject to Title 1 of the United States Employee Retirement Income

Securities Act of 1974, as amended or any individual retirement account plan subject to section 4975 of the United States Internal Revenue Code of 1986, as amended.

The Manager shall have the power to impose such restrictions as the Manager may think necessary for the purpose of ensuring that no Units in the Sub-Fund are acquired or held by an Unqualified Person (as defined in the “Definitions” section on pages 10-11).

### **US Person restrictions**

The Manager has determined that a US Person for FATCA purpose (as defined below) is not permitted to own Units.

### **What is Foreign Account Tax Compliance Act (FATCA)?**

FATCA was enacted by the US in March 2010 aiming to combat tax evasion by US taxpayers. The intention of FATCA is to require Foreign Financial Institutions to report details of US Unitholders holding assets to the US Internal Revenue Services (the “**IRS**”), as a safeguard against US tax evasion. The regulations are effective in phases commencing 1 July 2014. To discourage “Foreign Financial Institutions” (“**FFIs**”) from choosing to remain outside of the regulations, on or after 1 July 2014, a FFI that does not enter the relevant agreement and comply with the FATCA regulations will be subject to a US tax withholding of 30% on their income from US investments and, on or after 1 January 2017, on their gross proceeds from US investments and also potentially revenues from other non-US investments (“**FATCA Withholding**”).

The Sub-Fund is a Registered Deemed Compliant FFI and therefore falls within the scope of the FATCA regulations. In order to protect Unitholders from the effect of any penalty withholding, it is the intention of the Sub-Fund to be compliant with the FATCA regulations.

### **Intergovernmental Agreement (“IGA”)**

On 13 November 2014, the Hong Kong Government and US signed a Model 2 Intergovernmental Agreement (“**IGA**”) for implementation of the FATCA. The Sub-Fund intends to take any measures that may be required to ensure compliance under the terms of the IGA and local implementing regulations.

Under the terms of the IGA the Sub-Fund will be obliged to comply with the provisions of FATCA and abide by the requirements provided in the FFI agreement.

In order to comply with their FATCA obligations, the Sub-Fund will be required to obtain certain information from their Unitholders so as to ascertain the US tax status of the Unitholders. If the Unitholder is a specified US person, US owned non-US entity, non-participating FFI (“**NPFFI**”) or does not provide the requisite documentation, the Sub-Fund may need to report information on these Unitholders to the appropriate tax authority, as far as legally permitted.

Other intergovernmental agreements similar to the IGA have been entered into or are under discussion by other jurisdictions with the United States. Unitholders holding investments via distributors or custodians that are not in Hong Kong or another IGA country should check with such distributor or custodian as to the distributor’s or custodian’s intention to comply with

## FATCA.

Additional information may be required by the Sub-Fund, the Custodian or any other service provider from certain Unitholders in order to comply with their necessary obligations under FATCA or under an applicable IGA. The scope and application of FATCA withholding and information reporting pursuant to the terms of FATCA and the IGAs is subject to review by the US, Hong Kong and other IGA governments, and the rules may change. Unitholders should contact their own tax advisers regarding the application of FATCA to their particular circumstances. For further information of FATCA you can visit the US IRS website at [www.irs.gov/FATCA](http://www.irs.gov/FATCA).

For this purpose, a “**US Person**” (“**US Person for FATCA purpose**”) is defined as follows:

1. An individual who is a citizen of the US or a resident alien for US federal income tax purposes. In general, the term “resident alien” is defined for this purpose to include any individual who (i) holds an Alien Registration Card (a “green card”) issued by the US Citizenship and Immigration Service or (ii) meets a “substantial presence” test. The “substantial presence” test is generally met with respect to any calendar year if (a) the individual was present in the US on at least 31 days during such year and (b) the sum of the number of days in which such individual was present in the US during such year, 1/3 of the number of such days during the first preceding year, and 1/6 of the number of such days during the second preceding year, equals or exceeds 183 days; or
2. A corporation, an entity taxable as a corporation or a partnership created or organized in or under the laws of the US or any state or political subdivision thereof or therein, including the District of Columbia (other than a partnership that is not treated as a US person under Treasury Regulations); or
3. An estate the income of which is subject to US federal income tax regardless of the source thereof; or
4. A trust with respect to which a court within the US is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of its substantial decisions, or certain electing trusts that were in existence on 20 August 1996 and were treated as domestic trusts on 19 August 1996; or
5. A Passive Non-Financial Foreign Entity (“**Passive NFFE**”) with “substantial US owner(s)” that are “Specified US Person(s)” (within the meaning of Treasury Regulations under the FATCA as set forth in Sections 1471 through 1474 of the US Internal Revenue Code (“**IRC**”)), where the country in which the relevant entity is formed or resident has not signed an IGA. A Passive NFFE is generally a non-US and non-financial institution entity that is neither a “publicly traded corporation” nor an “active NFFE” (within the meaning of Treasury Regulations under FATCA). A substantial US owner is generally a US Person (as described above under paragraphs 1 through 4) that owns, directly or indirectly, a more-than-10 percent interest in the Passive NFFE; however there are generally a number of exemptions with specified requirements including, but not limited to, the following types of entities: i) a regularly traded corporation on an established securities market or an affiliate; ii) an organization exempt from US tax under IRC Section 501(a); iii) an IRC Section 581 US bank; and iv) an IRC Section 851 regulated investment company; or

6. A “Non-U.S. Entity” with one or more “Controlling Persons” (within the meaning of an applicable IGA) that is a US Person (as described above under paragraph 1).

All parties meeting the above definition of US Person should note the requirements of FATCA. If Unitholders are in any doubt as to their status, they should consult their financial or other professional adviser.

If, subsequent to a Unitholder’s investment, the Unitholder becomes the aforementioned US Person or Unqualified Person, such Unitholder (i) will be restricted from making any additional subscriptions and (ii) as soon as practicable have its Units compulsorily redeemed (subject to the requirements of applicable law).

It should be noted that the Sub-Fund may exercise its right to:

- (a) completely redeem the holding of an affected Unitholder (at any time upon any or no notice) ; or
- (b) reject the investors’ application; or
- (c) withhold on amounts otherwise distributable to the investor; or
- (d) compel the Unitholders to sell their interest

if the Unitholders fail to provide the Sub-Fund with the necessary information upon request to satisfy relevant requirements under any applicable local or foreign laws and regulations issued by regulatory or governmental authorities of relevant jurisdiction, including but not limited to FATCA obligations.

To comply with FATCA, the Sub-Fund may need to disclose the name, address, taxpayer identification number and investment information relating to certain US investors who are US Persons that own, directly or indirectly, an interest in certain entities, as well as certain other information relating to such interest, to the US Internal Revenue Service (IRS).

The extent to which the Sub-Fund is able to report to the US IRS will depend on each affected Unitholder in the Sub-Fund providing the Sub-Fund or its delegate with any information and consent that the Sub-Fund determines is necessary to satisfy such obligations.

Potential applicants for Units in the Sub-Fund should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their incorporation, citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Units in the Sub-Fund. Investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers in advance of any acquisition, holding or disposal of Units.

### **Personal Data or Confidential Information**

- (1) Personal Data or Confidential Information (including information necessary to ascertain tax status, information for reporting of tax withholding and details of transaction) provided



by a Unitholder will be used, shared, stored, processed, transferred and disclosed (within or outside Hong Kong) so that the Manager, the Trustee and their associated or affiliated companies, connected persons, delegates, contractors, authorised agents or service providers can carry out their obligations in respect of the Fund and/or the Sub-Fund or for other purposes including but not limited to (a) processing the subscription, redemption and switching of Units, completing the information on the Register of Unitholders, carrying out instructions or responding to Unitholder's enquiries, verifying data and providing administrative or other relevant services to the Unitholder (including the mailing of reports, notices or newsletters); (b) in compliance with any applicable law, regulation, statute, ordinance, rule, judgment, decree, code, guidelines, directive, circulars, sanctions regime, court order issued by other regulatory authorities of relevant jurisdiction, exchange or market, whether legal, regulatory, governmental, tax, law enforcement, self-regulatory, industry or others which apply in respect of the Fund and/or the Sub-Fund or the Unitholder's investments or bind or apply to the Manager or the Trustee of the Fund from time to time ("**Relevant Laws**") and meeting any demands, disclosure, notification or reporting requirements to which any recipient of the data is subject under the Relevant Laws, including but not limited to compliance with obligations pursuant to the FATCA, verifying the identity of a Unitholder or establishing whether a Unitholder is a US Person for the purposes of FATCA (collectively, the "**Regulatory Requirements**"); (c) prevention, detection, sanction or investigation of crime, fraud, money laundering, corruption, tax evasion, terrorist financing and any other violation of laws or unlawful activities and fulfilling related Regulatory Requirements; (d) enforcing or defending the rights of the Manager and the Trustee; (e) fulfilling internal operational or compliance requirements of the Manager and the Trustee or their associated or affiliated companies or connected persons; and (f) maintenance or continuation of overall relationship with the Unitholder.

- (2) Failure to provide information may result in the Manager or the Trustee being unable to open/ maintain an account or provide/ continue to provide services to the Unitholder or taking appropriate action or reporting to the relevant authorities.
- (3) Unitholder has the right to request access to and correction of any personal data or to request the personal data not to be used for direct marketing purposes. Collection and use of personal data will be subject to the terms of the Personal Data (Privacy) Ordinance of Hong Kong.

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## **PARTIES**

### **Manager and Listing Agent**

BOCI-Prudential Asset Management Limited  
27/F., Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

### **Trustee and Custodian**

BOCI-Prudential Trustee Limited  
12/F & 25/F, Citicorp Centre  
18 Whitfield Road  
Causeway Bay  
Hong Kong

### **Registrar**

Computershare Hong Kong Investor Services Limited  
46/F, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### **Service Agent**

HK Conversion Agency Services Limited  
1/F One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

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

Baker & McKenzie  
23<sup>rd</sup> Floor, One Pacific Place  
88 Queensway  
Admiralty  
Hong Kong

### **Auditors**

Ernst & Young  
22/F., CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

### **Directors of the Manager**

Wang Zhongze  
Mak Tat Cheung  
Tse Yung Hoi  
Guy Robert Strapp  
Julian Christopher Vivian Pull

## DEFINITIONS

<b>“A Share”</b>	means domestic shares listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange in the PRC, which are available to domestic investors, QFII and RQFII;
<b>“Application”</b>	means a Creation Application and a Redemption Application;
<b>“Application Cancellation Fee”</b>	means the fee payable by a Participating Dealer or an Eligible Investor (as the case may be) in respect of cancellation of an Application as set out in the Trust Deed;
<b>“Application Unit”</b>	means such number of Units of a class or whole multiples thereof as specified in the Prospectus or such other multiple of Units of a class from time to time determined by the Manager, the Trustee and notified to the Participating Dealer(s) and Eligible Investor(s) (as the case may be), either generally or for a particular class or classes of Units;
<b>“Associate”</b>	in relation to a company, means any of its subsidiaries or holding companies and any subsidiary or holding company of any of the foregoing and for this purpose, the term “subsidiary” and “holding company” shall have the meaning as given to them in Section 2 of the Companies Ordinance;
<b>“Auditors”</b>	means the auditor or auditors of the Sub-Fund from time to time appointed by the Manager with the prior approval of the Trustee pursuant to the provisions of the Trust Deed;
<b>“AXP”</b>	means an A Share access product, being a Security (including without limitation, warrant, note or participation certificate) linked to an A Share or a Basket of A Shares;
<b>“AXP Value”</b>	means the value of the AXP or if, there is more than one (1) AXP, the value of all the AXPs, at the Valuation Point on the relevant Dealing Day as determined in accordance with the provisions of the Trust Deed;

<b>“Base Currency”</b>	means the currency of account of the Sub-Fund as specified by the Manager with the approval of the Trustee from time to time;
<b>“Basket”</b>	means a portfolio of A Shares, which seeks to benchmark the CSI 300 by representative sampling strategy or otherwise provided that such portfolio shall comprise only whole numbers of A Shares and no fraction or, if the Manager determines, shall comprise only round lots and not any odd lots;
<b>“Business Day”</b>	means, unless the Manager and the Trustee otherwise agree, a day on which (a)(i) the relevant securities market on which the A Shares to which the AXP's are linked or the A Shares acquired through the Manager's QFII investment quota are traded is open for normal trading; or (ii) if there are more than one (1) such securities market, the securities market designated by the Manager is open for normal trading, and (b) the CSI 300 is compiled and published, or such other day or days as the Manager and the Trustee may agree from time to time provided that if on any such day, the period during which the relevant securities market is open for normal trading is reduced as a result of typhoon, rainstorm or other similar events, such day shall not be a Business Day unless the Manager and the Trustee otherwise agree;
<b>“Cancellation Compensation”</b>	means an amount payable by a Participating Dealer or an Eligible Investor (as the case may be) in respect of cancellation of an Application pursuant to the Trust Deed;
<b>“Cash Component”</b>	means the aggregate Net Asset Value of all the Units in connection with an Application less the relevant AXP Value (in relation to an Application by a Participating Dealer);
<b>“CCASS”</b>	means the Central Clearing and Settlement System established and operated by HKSCC or any successor system operated by HKSCC or its successors;
<b>“Collective Investment Scheme”</b>	has the meaning given to such term in Section 1 of Part I of Schedule 1 of the Securities and Futures Ordinance;

<b>“Companies Ordinance”</b>	means the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
<b>“Connected Person”</b>	<p>in relation to a company, means:</p> <ul style="list-style-type: none"> <li>(a) any person or company beneficially owning, directly or indirectly, twenty per cent (20%) or more of the ordinary share capital of that company or able to exercise, directly or indirectly, twenty per cent (20%) or more of the total votes in that company;</li> <li>(b) any person or company controlled by a person who or which meets one or both of the descriptions given in (a) above;</li> <li>(c) any member of the group of which that company forms part; or</li> <li>(d) any director or other officer of that company or of any of its Connected Persons as defined in (a), (b) or (c) above;</li> </ul>
<b>“Creation Application”</b>	means (a) an application by a Participating Dealer for the creation of Units in accordance with the relevant procedures set out in the Trust Deed and the relevant Participation Agreement; or (b) an application by an Eligible Investor for the creation of Units in accordance with the relevant procedures set out in the Trust Deed;
<b>“CSDCC”</b>	means the China Securities Depository and Clearing Corporation;
<b>“CSRC”</b>	means the China Securities Regulatory Commission;
<b>“CSI 300”</b>	means the CSI 300 Index;
<b>“Dealing Day”</b>	means each Business Day or such Business Day or Business Days as the Manager may from time to time, with the approval of the Trustee, determine either generally or in respect of a particular class or classes of Units, provided that if any securities market on which, in the opinion of the Manager, all or part of (i) the AXPs of the Sub-Fund or (ii) the A Shares invested in by the Sub-Fund via the Manager’s QFII investment quota are quoted, listed or dealt in is on any day

not open for trading, the Manager may without notice to the Unitholders of the Sub-Fund determine that such day shall not be a Dealing Day in relation to the Sub-Fund;

**“Dealing Deadline”**

in relation to any Dealing Day, shall be such time as the Manager may from time to time with the approval of the Trustee determine generally or in relation to a particular class or classes of Units or any particular place for submission of Application(s) by a Participating Dealer or the Eligible Investor (as the case may be);

**“Deposited Property”**

means all the assets (including cash) received or receivable by the Trustee, for the time being held or deemed to be held upon the trusts of the Trust Deed for the account of the Sub-Fund excluding (i) the Income Property and (ii) any amount for the time being standing to the credit of the Distribution Account;

**“Distribution Account”**

means the notional account to which amount available for distribution to the Unitholders is credited;

**"Duties and Charges"**

means all stamp and other duties, taxes, government charges, brokerage, bank charges, transfer fees, registration fees, transaction levies and other duties and charges, in connection with the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units.

**“Eligible Investor”**

means a person who has opened an account with the Manager, having satisfied the client intake procedures of the Manager and provided such documents, undertakings and confirmations as the Manager may require;

**“Extraordinary Resolution”**

means a resolution proposed as such and passed by seventy five per cent (75%) or more of the votes of those present and entitled to vote in person or by proxy at a duly convened meeting of Unitholders of a relevant class or classes and held pursuant to the provisions of the Trust Deed;



<b>“Fund”</b>	means the <b>World Index Shares ETFs</b> or such other name as the Trustee and the Manager may from time to time determine;
<b>“HK\$” or “Hong Kong dollars” or “HKD”</b>	means the lawful currency of Hong Kong;
<b>“HKSCC”</b>	means the Hong Kong Securities Clearing Company Limited or its successors;
<b>“Hong Kong”</b>	means the Hong Kong Special Administrative Region of the PRC;
<b>“Income Property”</b>	means (a) all interest, dividends and other sums deemed by the Manager (after consulting the Auditors) to be in the nature of income (including taxation repayments, if any) received or receivable by the Trustee in respect of the Deposited Property of the Sub-Fund (whether in cash or, without limitation, by cheque, money, credit or otherwise or the proceeds of sale of any Income Property received in a form other than cash); (b) all Cash Component payments received or receivable by the Trustee for the account of the Sub-Fund; (c) all Cancellation Compensation received by the Trustee for the account of the Sub-Fund; and (d) all interest and other sums received or receivable by the Trustee in respect of (a), (b) or (c) of this definition, but excluding (i) the Deposited Property of the Sub-Fund; (ii) any amount for the time being standing to the credit of the Distribution Account for the account of the Sub-Fund or previously distributed to Unitholders; (iii) gains for the account of the Sub-Fund arising from the realization of Securities; and (iv) any sums applied towards the payment of the fees, costs and expenses payable by the Fund from the Income Property of the Sub-Fund;
<b>“Index Provider”</b>	in respect of the CSI 300, means the China Securities Index Co., Ltd. or any other person responsible for managing and compiling the CSI 300 and who has the right to grant the license to use the CSI 300;
<b>“Initial Issue Date”</b>	means the date of the first issue of Units relating to the Sub-Fund;

<b>“Initial Offer Period”</b>	means in relation to a class of Units such period as may be agreed between the Trustee and the Manager for the purpose of making an initial offer of Units of such class;
<b>“Issue Price”</b>	means the issue price per Unit of a particular class during the Initial Offer Period as determined by the Manager in respect of such class of Units and thereafter the issue price per Unit calculated pursuant to the Trust Deed at which Units are from time to time issued or to be issued;
<b>“Manager”</b>	means BOCI-Prudential Asset Management Limited or any other person (or persons) who for the time being is duly appointed as manager (or managers) of the Fund and being approved by the SFC as qualified to act as such for the purposes of the UTMF Code;
<b>“month”</b>	means calendar month;
<b>“Net Asset Value”</b>	means the net asset value of the Sub-Fund or, as the context may require, of a Unit of any class relating to the Sub-Fund calculated pursuant to the provisions of the Trust Deed;
<b>“Operating Guidelines”</b>	means operating guidelines governing the Participating Dealer(s), including without limitation, the procedures for creation and redemption of Units;
<b>“Participation Agreement”</b>	means an agreement entered into between the Trustee, the Manager and a Participating Dealer setting out, amongst other things, the arrangements in respect of the Applications made by a Participating Dealer;
<b>“Participating Dealer”</b>	means a broker or dealer who has entered into a Participation Agreement in form and substance acceptable to the Manager and Trustee;
<b>“PRC” or “China”</b>	means the People’s Republic of China;
<b>“PRC Broker(s)”</b>	means any PRC broker(s) who for the time being is duly appointed by a QFII holder acting on its behalf and upon its instructions in PRC markets to deal with its QFII-related securities trading activities in the PRC;

<b>“QFII”</b>	means a qualified foreign institutional investor approved under the “Regulations on Domestic Securities Investments by Qualified Foreign Institutional Investors” issued by the China Securities Regulatory Commission, the People’s Bank of China and the State Administration of Foreign Exchange and effective from 1 September 2006;
<b>“QFII Custodian”</b>	means Standard Chartered Bank (China) Limited or such other licensed custodian bank who is duly appointed as the custodian with respect to the assets of the Sub-Fund in the PRC;
<b>“QFII Custodian Agreement”</b>	means the supplementary custodian agreement for PRC QFII (Fund-Type) (Multi-Direct Model) entered into between the Manager, the QFII and the Trustee, as amended from time to time;
<b>“Redemption Application”</b>	means (a) an application by a Participating Dealer for the redemption of Units in accordance with the relevant procedures set out in the Trust Deed and the relevant Participation Agreement, or (b) an application by an Eligible Investor for the redemption of Units in accordance with the relevant procedures set out in the Trust Deed;
<b>“Redemption Price”</b>	means the redemption price per Unit of a particular class calculated in accordance with the Trust Deed at which Units are from time to time redeemed;
<b>“Register”</b>	means the register of Unitholders to be kept pursuant to the Trust Deed;
<b>“Registrar”</b>	means such person as may from time to time, with the prior written approval of the Trustee, be appointed by the Manager to keep the Register and in default of any such appointment shall mean the Trustee;
<b>“RMB”</b>	means the lawful currency of the People’s Republic of China;
<b>“RQFII”</b>	means a Renminbi qualified foreign institutional investor approved pursuant to the relevant PRC regulations (as amended from time to time);
<b>“RQFII ETF”</b>	means RQFII Exchange-Traded Fund;

<b>“Securities”</b>	has the meaning given to such term in Section 1 of Part I of Schedule 1 of the Securities and Futures Ordinance;
<b>“Securities and Futures Ordinance”</b>	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
<b>“SEHK”</b>	means The Stock Exchange of Hong Kong Limited or its successors;
<b>“Service Agent”</b>	means HK Conversion Agency Services Limited or such other person as may from time to time be appointed to act as service agent in relation to the Sub-Fund;
<b>“Settlement Day”</b>	means the Business Day which is two (2) Business Days after the relevant Dealing Day (or such later Business Day as is permitted in relation to such Dealing Day pursuant to the Operating Guidelines in respect of settlement with Participating Dealers) or such other number of Business Days after the relevant Dealing Day as the Manager and the Trustee may from time to time agree and notify to the relevant Participating Dealer(s) or Eligible Investors (as the case may be), either generally or for a particular class or classes of Units;
<b>“SFC”</b>	means the Hong Kong Securities and Futures Commission;
<b>“Shanghai-Hong Kong Stock Connect”</b>	means the securities trading and clearing linked program developed by the SEHK, Shanghai Stock Exchange and CSDCC, pursuant to the relevant Hong Kong and PRC regulations (as amended from time to time);
<b>“SSE Securities”</b>	means certain stocks listed on the Shanghai Stock Exchange that are eligible for investment by Hong Kong and overseas investors via the Shanghai-Hong Kong Stock Connect;
<b>“Sub-Fund”</b>	means the W.I.S.E. – CSI 300 China Tracker <sup>®</sup> * (*This is a synthetic ETF) or such other name as the Trustee and the Manager may from time to time determine;
<b>“subsidiary” and “holding company”</b>	have the meaning given to them in Section 2 of the Companies Ordinance;

<b>“Transaction Fee”</b>	means the fee which may at the discretion of the Manager be charged to each Participating Dealer or Eligible Investor (as the case may be) under the Trust Deed, the maximum level of which shall be determined by the Manager from time to time and set out in this Prospectus;
<b>“Trust Deed”</b>	means the trust deed dated 11 July 2007 constituting the Fund, as amended from time to time in accordance with the terms thereof;
<b>“Trustee”</b>	means BOCI-Prudential Trustee Limited or such other person (or persons) who for the time being is duly appointed to be trustee (or trustees) of the Fund;
<b>“Unit”</b>	means such number of undivided shares or such fraction of an undivided share of the Sub-Fund to which a Unit relates as is represented by a Unit of the relevant class and except where used in relation to a particular class of Unit a reference to Units means and includes Units of all classes;
<b>“Unitholder”</b>	means the person for the time being entered on the Register as the holder of a Unit including, where the context so admits, persons jointly so registered;
<b>“Unqualified Person”</b>	means: <ul style="list-style-type: none"> <li>(a) a person who by virtue of any law or requirement of any country or governmental authority is not qualified to hold a Unit or who would be in breach of any such law or regulation in acquiring or holding a Unit or if, in the opinion of the Manager, the holding of a Unit by such person might result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or might result in the Fund, the Manager or the Trustee or any of their Connected Persons being exposed to any liability, penalty or regulatory action; or</li> <li>(b) any person if the holding of a Unit by such person might, due to any circumstances whether directly affecting such person and whether relating to such</li> </ul>

person alone or to any other person in conjunction therewith (whether such persons are connected or not), in the opinion of the Manager, result in the Fund incurring any liability to taxation or suffering a pecuniary disadvantage which the Fund might not otherwise have incurred or suffered, or in the Fund, the Manager or the Trustee or any of their Connected Persons being exposed to any liability, penalty or regulatory action;

**“US\$ or US dollars”**

means the lawful currency of the United States of America;

**“UTMF Code”**

means the SFC’s Code on Unit Trusts and Mutual Funds, as amended or supplemented from time to time; and

**“Valuation Point”**

means the official close of trading on the securities market on which (i) the A Shares to which the AXP’s are linked, or (ii) the A Shares invested in by the Sub-Fund via the Manager’s investment quota or (iii) the A Shares invested in by the Sub-Fund via the Shanghai-Hong Kong Stock Connect, are listed, and in case there are more than one (1) such securities market, the official close of trading on the last relevant securities market to close, or such other time or times as determined by the Trustee and the Manager from time to time provided that there shall always be a Valuation Point on each Dealing Day other than where there is a suspension of determination of the Net Asset Value of the Sub-Fund pursuant to provisions of the Trust Deed.

The Fund is a unit trust established by a trust deed dated 11 July 2007 (as may be amended, modified or supplemented from time to time) with BOCI-Prudential Asset Management Limited as the manager and BOCI-Prudential Trustee Limited as the trustee of the Fund. The Fund is established under and governed by the laws of Hong Kong.

The Fund is an umbrella fund under which index-tracking sub-funds will be established. The Sub-Fund is the first sub-fund of the Fund. Only one (1) class of Units is currently available in relation to the Sub-Fund.

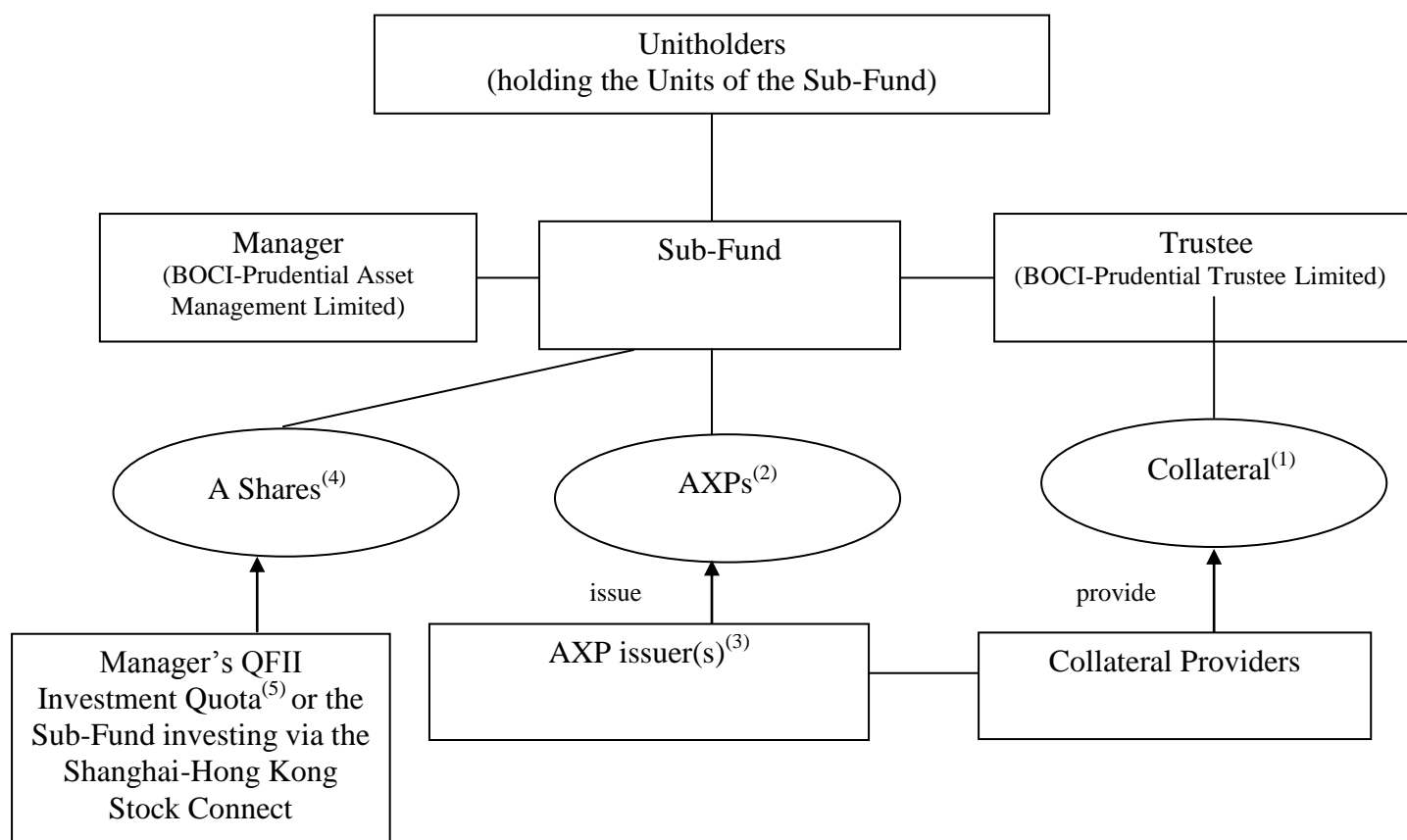
## KEY INFORMATION OF THE SUB-FUND

### Summary

The following table is only a summary of key information of the Sub-Fund, and should be read in conjunction with the full text of this Prospectus.

Product Type		Index-Tracking Exchange Traded Fund
Underlying Index		CSI 300 Index
Listing Date		17 July 2007
Exchange Listing		SEHK - Main Board
Stock Code		2827
Trading Board Lot Size		200 Units
Base Currency		Hong Kong dollars (HK\$)
Trading Currency		Hong Kong dollars (HK\$)
Distribution Policy		Annually (if any) at the discretion of the Manager
Parties	Manager and QFII	BOCI-Prudential Asset Management Limited
	Trustee and Custodian	BOCI-Prudential Trustee Limited
	QFII Custodian:	Standard Chartered Bank (China) Limited
	Registrar	Computershare Hong Kong Investor Services Limited
	Service Agent	HK Conversion Agency Services Limited
Website		<a href="http://www.boci-pru.com.hk/english/etf/intro.aspx">www.boci-pru.com.hk/english/etf/intro.aspx</a> (for English) <a href="http://www.boci-pru.com.hk/chinese/etf/intro.aspx">www.boci-pru.com.hk/chinese/etf/intro.aspx</a> (for Chinese)
Application Unit size for Creation/Redemption by the Participating Dealer(s)		Minimum 800,000 Units (or multiples thereof)
Application Unit size for Creation/Redemption by the Eligible Investors through the Manager		Minimum 800,000 Units (or multiples thereof)

The diagram below briefly summarizes the investment strategy of the Sub-Fund and the collateral arrangements (and any guarantee arrangements if applicable) in relation to the AXP (if available):



Note:

1. The Sub-Fund obtains and maintains collateral at a level representing at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers with the value of the collateral marked to market by the end of each trading day with a view to ensuring that there is no uncollateralized counterparty risk exposure.
2. AXPs which provide an exposure to the economic gain/loss in the performance of an A Share or a basket of A Shares.
3. The list of AXP issuers is available on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).
4. Where the A Shares are acquired through the Manager's QFII investment quota, the A Shares will be held by the QFII Custodian for and on behalf of the Sub-Fund in electronic form via a securities account with China Securities Depository and Clearing Corporation Limited (CSDCC). Where A Shares are acquired by the Sub-Fund via the Shanghai-Hong Kong Stock Connect, only certain A Shares that are SSE Securities may be acquired.
5. The Manager would apply its QFII investment quota allocated to the Sub-Fund from time to time for the account of the Sub-Fund to acquire A Shares on behalf of the Sub-Fund.



## **Creation and Redemption of Units**

A Participating Dealer can apply to create or redeem Units directly with the Sub-Fund. Any investor, other than a Participating Dealer, may only make a request to create or redeem Units through a Participating Dealer, and if the investor is a retail investor, such request must be made through a stockbroker which has opened an account with a Participating Dealer. Also, because the Manager has the capacity to act as dealer for the Eligible Investors, an Eligible Investor may directly make a request to the Manager (in its capacity as dealer for the Eligible Investor) to create or redeem (subject to such terms and conditions as specified in the relevant application forms, the other requirements set out in the section "Creation and Redemption of Units" and any applicable regulations and restrictions relating to QFII or the Shanghai-Hong Kong Stock Connect (as the case may be)) Units in cash. However, investors should note that a Participating Dealer reserves the right to refuse to accept a request from an investor to create or redeem Units under exceptional circumstances and can charge such fees as it may reasonably determine from time to time. Similarly, the Manager reserves the absolute discretion to accept or reject a Creation Application or Redemption Application by an Eligible Investor save that the Manager may only reject a Redemption Application under exceptional circumstances having regard to the interest of Unitholders as a whole, provided that the Manager must act reasonably and in good faith, and can charge such fees as specified in the section "Creation and Redemption of Units". The Manager's rejection of a Creation or Redemption Application by an Eligible Investor shall not affect the Eligible Investor's right to make an Application through a Participating Dealer. Also, the Manager (in its capacity as dealer for the Eligible Investors) may reject a Creation Application or Redemption Application by an Eligible Investor in accordance with the terms and conditions set out in the relevant application form of the Eligible Investor. Details of the procedures for creation and redemption of Units are set out on pages 47 to 59 of this Prospectus.

Investor should note that the dealing procedures for creation and redemption of Units through a Participating Dealer, the Manager (with respect to an Application by an Eligible Investor) or a stockbroker may be different from those set out for the Sub-Fund in this Prospectus. For example, the dealing deadline set by a Participating Dealer, the Manager or the stockbroker may be earlier than that set out for the Sub-Fund in this Prospectus. Investors should therefore check the applicable dealing procedures with the relevant Participating Dealer, the Manager (with respect to an Application by an Eligible Investor) or the stockbroker (as the case may be).

## **Trading of Units on the SEHK**

Investors may buy or sell the Units of the Sub-Fund through an intermediary such as a stockbroker on the SEHK. Dealings on the SEHK of Units in the Sub-Fund commenced on 17 July 2007. Units of the Sub-Fund are accepted as eligible securities by the HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in the Units on the SEHK. Units in the Sub-Fund shall trade on the SEHK in board lots of 200 Units each. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second business day after the trading day of the relevant transactions. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Units are neither listed nor dealt on any other stock exchange and no application for such listing or permission to deal is being sought as at the date of this Prospectus. Application may be made in the future for listing of Units on one or more other stock exchanges.

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

## **INVESTMENT OBJECTIVES AND POLICIES OF THE SUB-FUND**

The Sub-Fund is an index-tracking fund which seeks to track the performance of the CSI 300. The CSI 300 is a diversified index consisting of 300 constituent A Shares compiled and managed by the China Securities Index Co., Ltd. A Shares are currently available for investment by both domestic investors in the PRC, the QFIIs, the RQFIIs and Hong Kong and overseas investors via the Shanghai-Hong Kong Stock Connect. A brief description of the A Share market in the PRC (including the Shanghai Stock Exchange) and the QFII regulations in the PRC is set out in Appendix I and Appendix II, respectively. The China Securities Index Co., Ltd. has granted to the Manager, by way of license and subject to the terms of an index license agreement between them, the right to use the CSI 300 in connection with the operation, marketing and promotion of the Sub-Fund. Details in respect of the CSI 300 are set out in Appendix III.

The Manager intends to achieve the investment objective of the Sub-Fund by investing primarily in A Shares indirectly through the AXPs. The Sub-Fund may also invest directly in A Shares via the Manager's QFII investment quota.

In addition, the Sub-Fund may, subject to any applicable limit as disclosed in this Prospectus, also hold, purchase and sell certain eligible A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect (as further described in the section "Shanghai-Hong Kong Stock Connect" in Appendix I).

As the Manager is a QFII, the Manager will invest directly in the PRC A Shares on behalf of the Sub-Fund to the extent of such portion of the Manager's QFII investment quota as the Manager may allocate to the Sub-Fund. The Manager initially obtained, for the account of the Sub-Fund, a QFII investment quota of US\$ 90 million. The initial QFII investment quota may be reduced, to the extent of such remitted amount as may be approved by the SAFE, from time to time as a result of repatriation of funds by the Manager. The Manager may invest up to the QFII investment quota allocated to the Sub-Fund from time to time in acquiring A Shares for the account of the Sub-Fund by using its QFII investment quota.

All of the Sub-Fund's assets in the PRC (including the onshore PRC cash deposits and its onshore A Shares portfolio) acquired via the Manager's QFII investment quota will be held by the QFII Custodian in accordance with the terms of the QFII Custodian Agreement pursuant to which the QFII Custodian was appointed. The QFII Custodian may open one or more securities account(s) ("**Securities Account(s)**") with the relevant depositories including but not limited to the China Securities Depository and Clearing Corporation Limited (the "**CSDCC**"), China Central Depository & Clearing Co., Ltd ("**CCDC**"), Shanghai Clearing House Co., Ltd. ("**SCH**") and China Financial Futures Exchange ("**CFFEX**") for the Sub-Fund in accordance with the applicable regulations (as amended from time to time). RMB basic deposit account and RMB special deposit accounts ("**Cash Account**") shall also be established and maintained with the QFII Custodian. The QFII Custodian shall, in turn, have a cash clearing account with CSDCC for trade settlement according to the applicable regulations (as amended from time to time). Further details of the status of the Sub-Fund's assets in the PRC are set out in Appendix II.

Also, the Manager will hold, purchase and sell one or more AXP(s), each of which is a derivative instrument linked to an A Share or a Basket of A Shares, on behalf of the Sub-Fund as if they were the relevant A Share or the relevant Basket of A Shares. The AXP(s) do not provide any beneficial or equitable entitlement or interest in the relevant A Share or the relevant Basket of A Shares to which the AXP(s) are linked, and the Sub-Fund will not in any way own the underlying A Share(s). However, the AXP(s) are designed to reflect closely the performance of the underlying A Share(s) and are not subject to any form of adjusted “participation rate” mechanism. The “participation rate” mechanism refers to the calculation of the return of a derivative product at maturity or at the point of redemption of, or any distribution under a derivative product at a fixed percentage to the performance of the assets underlying the derivative product. The absence of any form of adjusted participation rate mechanism in the AXP(s) will therefore allow the AXP(s) to track the performance of the underlying A Share(s) subject to costs and expenses. The ability to pay under the AXP(s) depends entirely on the credit risk of the issuers. If any of the AXP issuers fails to perform the respective obligations under its AXP(s), the Sub-Fund may suffer losses which may be equal to the full value of such AXP(s).

The Manager may from time to time implement measures (including, without limitation, obtaining collateral from the AXP issuer(s) or the affiliate(s) of the AXP issuer(s) (for example, by way of a securities borrowing and lending arrangement and/or appointing additional AXP issuers) to mitigate the counterparty risk associated with the Sub-Fund's investment in AXP(s) as it deems appropriate. The costs of any such measures will be borne by the Sub-Fund. In accordance with the current collateral management policy (the “**Collateral Management Policy**”), the Sub-Fund will obtain collateral such that the collateral held by the Sub-Fund should represent at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers with the value of collateral marked to market by the end of each trading day with a view to ensuring that there is no uncollateralized counterparty risk exposure. There is no assurance that the Manager will always be able to obtain collateral. Details of the risks involved are set out in paragraphs (a) and (cc) of the section “Risk Factors” below. Under normal circumstances, the Sub-Fund will not hold an AXP until its maturity date or exercise date but will trade the AXP at the trading price quoted by the calculation agent. Details of the operation of the Sub-Fund are set out in Appendix IV. The Manager may also invest in assets other than those set out above, provided that they are consistent with the Sub-Fund's investment objective and do not violate any investment restrictions or policies. For more details of the counterparty exposure, investors can review the section “Counterparty and Collateral Arrangement Disclosure” on the website maintained by the Manager for the Sub-Fund.

The Sub-Fund engages in securities lending only for the purposes of securing collaterals for AXP(s) invested by the Sub-Fund. The Sub-Fund has currently entered into securities lending and borrowing agreements (“**SBL Agreements**”) with the AXP issuers and/or its Associates under which stocks (which initially are constituent stocks of the Hang Seng Index and/or the Hang Seng China Enterprises Index and/or Hang Seng Composite Index and/or SFC authorized physical RQFII ETF units (up to 10% of the Net Asset Value of the Sub-Fund)) are transferred to the Sub-Fund to reduce the Sub-Fund's net counterparty exposure. The identity of the counterparties providing collaterals are listed on the Manager's website: ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)). For further details on the securities lending and borrowing arrangements, please refer to the section “Collaterals” on pages 18 to 19.

The Sub-Fund will not invest in any structured products and financial derivative instruments other than the AXP's and will not enter into any repurchase agreements or reverse repurchase agreements, stock lending transactions or other similar over-the-counter transactions except for the purpose of provision of collateral.

There is no assurance that the Sub-Fund will achieve its investment objective. The risk profile of the Sub-Fund is generally regarded as high.

## **INVESTMENT STRATEGY OF THE SUB-FUND**

Indexing investment strategies are used by an index-tracking fund to fulfil the index-tracking investment objective. Replication strategy and representative sampling strategy are the two most common strategies.

### *Replication Strategy*

An index-tracking fund which uses a replication strategy invests in substantially all the constituent stocks of the underlying index in substantially the same weightings (i.e. proportions) as these stocks have in the underlying index. When a stock ceases to be a constituent stock of the underlying index, rebalancing occurs which involves selling the outgoing stock and using the proceeds to acquire the incoming stock.

### *Representative Sampling Strategy*

An index-tracking fund which uses a representative sampling strategy invests in a representative sample of constituent stocks of the underlying index selected by the manager using quantitative analytical models in a technique known as "portfolio optimisation", under which each stock is considered for inclusion in the index-tracking fund based on its capitalisation, industry and fundamental investment characteristics. The Manager seeks to construct the portfolio of the index-tracking fund so that, its overall capitalisation, industry and fundamental investment characteristics are like those of the underlying index.

### *Investment Strategy Used by the Sub-Fund*

The Manager intends to pursue a representative sampling strategy for the Sub-Fund through a combination of (i) synthetically by investing in the AXP's, (ii) directly investing in A Shares through the Manager's QFII investment quota and (iii) directly investing in A Shares via the Shanghai-Hong Kong Stock Connect. Currently, the target aggregate exposure to A Shares through direct investment will not exceed 30% of the Net Asset Value of the Sub-Fund, although the Manager may vary the extent of the Sub-Fund's direct investment in A Shares as it considers appropriate, subject to market demands and conditions, quota availability and the applicable regulatory requirements. The Sub-Fund may not from time to time hold one or more AXP's linked to A Shares of all the constituent securities of the CSI 300 or have direct investment of all the constituent securities of the CSI 300 and the Manager may overweight the A Shares acquired through direct investment through the Manager's QFII investment quota or via the Shanghai-Hong Kong Stock Connect or the A Shares underlying the AXP(s) relative to the relevant A Shares' respective weightings in the CSI 300 on the condition that the maximum extra weighting in any underlying A Shares in the CSI 300 will not exceed four per cent (4%) under normal circumstances or such other percentage as determined by the Manager after

consultation with the SFC. Any non-compliance with the said limits will be disclosed in the annual report and interim report of the Sub-Fund. In addition, the Sub-Fund may hold AXP's linked to Baskets of A Shares or have direct holding of A Shares which may contain non-constituent stocks from time to time. AXP's are A Share access products which, under the terms of the AXP's, will provide the Sub-Fund with an exposure to the economic gain/loss in the performance of an A Share or a Basket of A Shares. Investors should note that the representative sampling strategy is associated with certain additional risks, in particular a possible increased tracking error at the time of the switch as well as a possible increased tracking error in general, and investors should read the "Risk Factors" section below carefully.

## **COLLATERALS**

The Manager seeks the provision of collateral (for example, by way of a securities borrowing and lending arrangement) to mitigate potential counterparty risks, with a view to ensuring that there is no uncollateralized counterparty risk exposure. The collateral held by the Sub-Fund should represent at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers, with the value of the collateral marked to market by the end of each trading day. Where collateral taken is in the nature of equity securities, the market value of such equity collateral should represent at least 120% of the related gross counterparty risk exposure towards the AXP issuers.

Collateral may take such form as the Manager considers appropriate, and currently it is in the form of constituent stocks of the Hang Seng Index and/or Hang Seng China Enterprises Index and/or Hang Seng Composite Index and/or SFC authorized physical RQFII ETF units (up to 10% of the Net Asset Value of the Sub-Fund), or cash and cash equivalents under a securities borrowing and lending arrangement. Securities, cash or cash equivalents so accepted as collaterals will not be subject to a prior charge or pledge at delivery. If an AXP issuer becomes insolvent, or if an AXP issuer fails to pay any sum payable under the AXP when due and after a demand has been made, or if other events of default specified in the relevant SBL Agreement occur, the Sub-Fund, subject to the terms of the SBL Agreement, shall be entitled to enforce the collaterals and obtain full title thereof. In such instances, the Sub-Fund's obligations to return the collaterals will be offset against the AXP issuer's obligation to pay under the AXP's.

The Manager has adopted measures to monitor the eligibility criteria and valuation of collateral provided to the Sub-Fund on an ongoing basis. The Manager will adopt prudent haircut policy on any non-equity collateral taking into account all relevant factors, including without limitation, the credit quality, liquidity, duration and other relevant terms of the collateral held. Collaterals taken by the Sub-Fund shall comply with all applicable requirements under the UTMF Code, including Chapter 8.8(e) of the UTMF Code as supplemented by such other guidance from the SFC from time to time. Details of the Collateral Management Policy can be found in the "Counterparty and Collateral Arrangement Disclosure" at the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)). Additional fees, charges and expenses incurred as a result of such measures will be borne by the Sub-Fund. A list of the AXP issuers, together with the approximate gross and net exposure to each AXP issuer is also available at the Manager's website.

The Manager shall manage the collateral in accordance with the Collateral Management Policy. A summary of the policy is set out in the following paragraph.

### ***Summary of Collateral Management Policy***

1. The collateral held by the Sub-Fund should at least represent 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers and be maintained, marked to market on a daily basis with a view to ensuring that there is no uncollateralized counterparty risk exposure. The Manager shall dynamically manage the collateral with due care, skill and prudence, and in the interest of the Unitholders, having due regard to the market circumstances from time to time.
2. The collateral must meet the requirements in Chapter 8.8(e) of the UTMF Code, as supplemented by such other guidance from the SFC from time to time. The following criteria will be observed when accepting assets as collaterals for the Sub-Fund: liquidity, daily valuation, credit quality, price volatility, diversification, correlation, enforceability, not being available for secondary recourse and involving no structured products.
3. Where collateral taken is in the nature of equity securities, the market value of such equity collateral should represent at least 120% of the related gross counterparty risk exposure towards the AXP issuers.
4. The Manager will adopt a prudent hair-cut policy on any non-equity collateral taking into account all relevant factors, including without limitation, the credit quality, liquidity, duration and other relevant terms of the collateral held.
5. The Manager will put in place and maintain appropriate systems, operational capabilities and expertise in relation to collateral management.
6. Collateral provided to the Sub-Fund must be held by the Trustee of the Sub-Fund.
7. If an asset taken as collateral subsequently fails to meet any of the criteria set out in the Collateral Management Policy (the "Defaulting Event"), the Manager shall:
  - (a) seek additional information on the Defaulting Event;
  - (b) continue to monitor the conditions and quality of the collateral; and
  - (c) return the applicable collateral and/or require other acceptable collaterals if the collateral does not meet any of the criteria set out in paragraph (2) above.

### **RISK FACTORS AND RISK MANAGEMENT POLICIES**

#### ***Risk Factors***

**Investments involve risks. The Sub-Fund is subject to market fluctuations and to the risks inherent in all investments. The price of Units of the Sub-Fund and the income from them may go down as well as up. Investment in the Sub-Fund is not the same as investment in the constituent stocks of the CSI 300.**

**The performance of the Sub-Fund will be affected by a number of risk factors, including those set out below. Some or all of the risk factors may adversely affect the Sub-Fund's Net Asset Value, yield, total return and/or its ability to achieve its investment objective.**

**There is no assurance that the Sub-Fund will achieve its investment objective. Investors should note that the following list does not purport to be an exhaustive list of the risk factors relating to an investment in the Sub-Fund. Investors should carefully consider the risks of investing in the Sub-Fund in light of their financial circumstances, knowledge, experience and other circumstances, and should seek independent professional advice as appropriate.**

- (a) Counterparty risk – Due to current restrictions under the PRC laws, the Sub-Fund's investment in A Shares will primarily be made indirectly through the AXP's issued by the AXP issuers. The AXP's represent only direct, general and unsecured contractual obligations of the AXP issuers and of no other person, and the AXP's do not provide the Sub-Fund with any legal or equitable interest of any type in the underlying A Shares. The AXP's issued by an AXP issuer will rank equally among themselves and with all other unsecured obligations of the AXP issuer in case of liquidation of the AXP issuer. In the event of liquidation or default of an AXP issuer and that a replacement AXP issuer cannot be appointed, dealing of the Units of the Sub-Fund may be suspended and the Sub-Fund may ultimately be terminated, in which case, the Sub-Fund may redeem all outstanding Units at the Net Asset Value which may differ from the trading price on the SEHK (which is affected by secondary market trading factors). The Sub-Fund is therefore exposed to the credit risk of the AXP issuer(s). Any loss would result in a reduction in the Net Asset Value of the Sub-Fund and impair the ability of the Sub-Fund to achieve its investment objective to track the relevant index.

As part of its risk management process, the Manager will closely monitor the risks of the Sub-Fund (including the counterparty risks in relation to a AXP issuer, its guarantor (if any) and the collateral provider (an affiliate of an AXP issuer providing collateral under the collateral arrangements set out below) in the interest of protecting the Sub-Fund and its investors. The Manager will take such measures and actions as reasonably and practicably available to it in the event of any substantial downgrading of credit rating or other material adverse change concerning any of such counterparties, including seeking additional collateral and/or AXP issuers. However, there can be no assurance that such measures will be available or effective and there may be additional charges, fees and expenses, and dealings of the Units of the Sub-Fund may need to be suspended, the Sub-Fund may suffer very significant losses and it may be ultimately terminated.

The Manager may from time to time implement measures including, without limitation, obtaining collateral from the AXP issuer(s) and/or the affiliate(s) of the AXP issuer(s) (for example, by way of a securities borrowing and lending arrangement) and/or appointing additional AXP issuers to mitigate the counterparty risk as it deems appropriate. The costs of any such measures will be borne by the Sub-Fund. There is no assurance that the Manager will always be able to obtain collateral. In the event that the Manager is unable to obtain collateral and/or sell the AXP's, the Sub-Fund may suffer losses potentially equal to the full value of the AXP's issued by such AXP issuer if the AXP issuer subsequently fails to perform its obligations under the AXP's.

The Sub-Fund will obtain collateral such that the collateral held by the Sub-Fund represents at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers with the value of the collateral marked to market by the end of each trading day with a view to ensuring that there is no uncollateralized counterparty

risk exposure. Currently, the Manager may accept constituent stocks of the Hang Seng Index and/or Hang Seng China Enterprises Index and/or Hang Seng Composite Index and/or SFC authorized physical RQFII ETF units (up to 10% of the Net Asset Value of the Sub-Fund) and/or cash or cash equivalents as collateral but this may change in light of prevailing market conditions.

On each trading day, where necessary, the Manager will make a request to the collateral provider for additional collateral based on the value of the AXPs and collateral as at the close of business of that trading day. In the ordinary course of business, the additional collateral will be obtained by the Manager within two trading days after the request. The Manager may subsequently accept other listed stocks as agreed between the Manager and the AXP issuer(s) and/or cash as collateral. For the avoidance of doubt, the collateral is not part of the investment of the Sub-Fund. Further information on the collateral arrangement will be available on the website of the Manager ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).

Investors should note that such measures will only provide coverage of part of the counterparty risk, and the Sub-Fund will still be subject to the counterparty risks which are not covered by such measures and other risks relating to collateral as stated in paragraph (aa) below. There is no assurance that such measures will avert any loss to the Sub-Fund. Such measures may also incur additional fees and charges, stamp duties or other taxes or levies which may be borne by the Sub-Fund, and the Manager reserves the right to increase the management fees to cover such additional fees and charges, stamp duties or other taxes or levies. Further, such measures may also be subject to risks such as:

- (i) Like other financial instruments, the collateral securities are also subject to fluctuations in the market value and the prices of such securities may go down as well as up. In case of extreme market volatility, the intra-day value of the collateral securities may go down and the value of the collateral securities may be lower upon realisation of the securities, if the price at the time of realisation is lower than the prior valuation of the securities.
- (ii) In case of collateral securities 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 not be possible to realise the relevant collateral securities on the stock exchanges. The Manager may take action reasonably and practicably available to it as it deems appropriate in such events, including, without limitation, seeking additional collateral from the relevant AXP issuer(s) or suspension of trading of the Units of the Sub-Fund on the SEHK.
- (iii) While the Manager will endeavour to use a tax efficient arrangement in implementing such measures, there is no guarantee that such arrangement will not be challenged by the tax authorities. If such arrangement is successfully challenged, the Sub-Fund may be required to pay the requisite tax (such as stamp duties) and other penalties.



- (b) Counterparty and settlement risk – Counterparty risk is the risk that the party trading with the Sub-Fund will be unable to meet its obligations to make payments or to settle a trade due to a deterioration of the counterparty's financial situation or some other failure by the counterparty. The Sub-Fund bears the risk of settlement failures. Any such failure may have a material adverse effect on the Sub-Fund and/or the value of Units of the Sub-Fund.
- (c) Single country / PRC emerging market risk – In tracking the CSI 300, the Sub-Fund will invest in (i) one or more AXPs, each of which is linked to an A Share or a Basket of A Shares of PRC companies which have substantial exposure to the PRC, (ii) invest in such A Shares directly through the Manager's QFII investment quota and (iii) invest in such A Shares that are SSE Securities directly via the Shanghai-Hong Kong Stock Connect. However, investors should be aware that the PRC is still a developing country and the legal and regulatory framework of the PRC is still undergoing development and there is a degree of legal uncertainty both for local and overseas market participants. Investment in an emerging market, such as the PRC involves special risks and considerations. The Sub-Fund may be subject to risks in relation to economic, political, social and regulatory development in the PRC.

These risks include the possibility of more volatile financial markets, price volatility, smaller capital markets, less developed economic, political and social conditions and policies, less developed clearance and settlement systems and procedures, greater risks in relation to foreign exchange and liquidity, nationalization, expropriation, government control and intervention and different accounting standards, etc.. All of these may have an adverse impact on performance on the Sub-Fund. The Sub-Fund invests in a single country market (i.e. PRC market) and is likely to be more volatile than a more widely invested fund.

The value of the Sub-Fund's assets may be affected by uncertainties or changes in government policies, promulgation of foreign currency and monetary policies and tax regulations. Many economic reforms of the PRC are unprecedented or experimental and are subject to modification and adjustment. Such modification and adjustment may have associated impact on the economy or financial markets of the PRC and may not always have a positive effect on investment in the A Shares of PRC companies. Furthermore, the PRC government may from time to time adopt corrective measures to control the growth of the PRC economy which may have an adverse impact on the performance or value of the Sub-Fund.

- (d) Market risk – Market risk includes such factors as changes in economic environment, consumption pattern and investors' expectations, etc. which may have significant impact on the value of the investments. Usually, emerging markets tend to be more volatile than developed markets and may experience substantial price volatility. Any options, warrants and derivatives in the Sub-Fund may also expose the Sub-Fund significantly to the fluctuations in the market. Market movements may therefore result in substantial fluctuations in the Net Asset Value per unit of the Sub-Fund.
- (e) Accounting standards and disclosure – The accounting, auditing and financial reporting standards in the PRC may be different from international requirements, and investors should take this in account when making investment decisions.

(f) Foreign exchange risk and currency conversion risk –

- (i) The Sub-Fund may be subject to exchange rate fluctuations between Hong Kong dollar and RMB given that the Sub-Fund and the AXP's are denominated in their respective base currency (such as Hong Kong dollars), but the underlying A Shares represented by the AXP's, the A Shares acquired by the Manager through the Manager's QFII investment quota on behalf of the Sub-Fund and the A Shares that are SSE Securities acquired via the Shanghai-Hong Kong Stock Connect are denominated in RMB.
- (ii) The Sub-Fund is denominated in Hong Kong dollar. All Creation and Redemption Applications of the Sub-Fund's Units in the primary market and the secondary trading of the Sub-Fund's Units are in Hong Kong dollar. Currency conversion costs will be incurred by the Sub-Fund as the CSI 300 is denominated in RMB while the Sub-Fund and the AXP's are denominated in their respective base currency (such as Hong Kong dollars).
- (iii) Under the Manager's QFII investment quota, the Sub-Fund's investments in A Shares are denominated in RMB while the Net Asset Value will be quoted in Hong Kong dollar. In relation to the Sub-Fund's direct investment in A Shares through the Manager's QFII investment quota, the Manager shall remit HKD subscription monies into the Mainland China through a HKD foreign currency account opened with the QFII Custodian and then convert the HKD subscription monies into RMB for investment. The Sub-Fund is therefore subject to foreign exchange costs and currency conversion risk.
- (iv) Further, RMB is subject to policies of exchange controls and repatriation restrictions. There is no guarantee that the RMB will not depreciate. There is no assurance that RMB will not be subject to devaluation or revaluation or that shortages in the availability of the currency will not develop.

(g) Concentration risk –

- (i) Sector concentration risk: To the extent that the CSI 300 concentrates in A Shares of a particular industry or group of industries, the Manager may similarly concentrate the Sub-Fund's investments. The performance of the Sub-Fund could then depend heavily on the performance of that industry or group of industries. In addition, the Manager may invest a significant percentage or all of the assets of the Sub-Fund in a single issuer, and the performance of the Sub-Fund could be closely tied to that issuer and could be more volatile than the performance of other more diversified funds.
  - (ii) Market concentration risk: The Sub-Fund invests primarily in securities related to the China market and may be subject to additional concentration risk.
- (h) Passive management risk – The Sub-Fund is not actively managed. The Manager may not take an active role in defending the position of the Sub-Fund in declining markets. Hence, any fall in the CSI 300 will result in a corresponding fall in the value of the Sub-Fund.

- (i) Tracking error risk – The Sub-Fund’s returns may deviate from the CSI 300 due to a number of factors, for example:
- (i) the fees and expenses of the Sub-Fund, imperfect correlation between the AXP(s) in which the Sub-Fund invests and the underlying A Shares, the need for the Manager to adopt a representative sampling strategy, foreign exchange costs caused by the fact that the CSI 300 is denominated in RMB whilst the base currency of the Sub-Fund is Hong Kong dollars and that of the AXPs may be in US dollars (or other currency being its base currency), rounding of share prices, changes to the CSI 300 and regulatory policies may affect the Manager’s ability to achieve close correlation with the CSI 300;
  - (ii) the requisite A Shares in respect of an in-cash Creation Application by an Eligible Investor will only be purchased on a Dealing Day or Dealing Days subsequent to the receipt (or deemed receipt) of the relevant Creation Application and the creation of Units for the relevant Eligible Investor, especially where there is suspension of trading of the relevant Securities or disruption of remittance of RMB from Hong Kong to the PRC to settle any purchase of the requisite A Shares due to systems breakdown or failure. Similarly, such suspension or disruption may cause delay in disposing of the requisite A Shares in respect of a Redemption Application. These situations will subject the Sub-Fund to market risks. Therefore, a handling fee as described in section “Creation and Redemption of Units” will be charged to an Eligible Investor, and all or part of such handling fee, as the Manager may at its absolute discretion allocate, will be applied to compensate the Sub-Fund for the market risks as described above and the Duties and Charges that the Sub-Fund may bear in purchasing or disposing of the relevant A Shares. The Manager considers that in normal market circumstances, this handling fee is a reasonable buffer taking into account the interests of the Eligible Investors and the Sub-Fund. However, where the market risks and the Duties and Charges exceed such part of the handling fee which is allocated to compensate the Sub-Fund for the market risks and the Duties and Charges, any deficient will be borne by the Sub-Fund. Because of such potential discrepancy, the Sub-Fund may be subject to a tracking error;
  - (iii) the Sub-Fund may receive income (such as interests and dividends) from its assets while the CSI 300 does not have such sources of income;
  - (iv) the Sub-Fund may also suffer a greater tracking error than a typical exchange traded fund (which invests in the constituent securities of the underlying index) because the majority investment of the Sub-Fund will not be direct investment in the constituent securities of the CSI 300, and the Sub-Fund is also the ultimate party which bears the risk relating to the Capital Gain Tax (as defined in Appendix V) and the Distribution Tax (as defined in Appendix V); and
  - (v) the Manager may decide to switch some of the Sub-Fund’s current investments in the AXPs to direct investments in the A Shares via the QFII investment quota obtained by the Manager or (if the relevant A Shares are SSE Securities) via the Shanghai-Hong Kong Stock Connect, in which case, the Manager will liquidate the relevant AXPs and use the proceeds to acquire the A Shares so as to

constitute the relevant Basket of A Shares. Apart from the risks relating to the liquidity of the relevant AXPs, there may be a time gap between the liquidation of the relevant AXPs and the acquisition of A Shares. The Sub-Fund will therefore bear the market risks during such time gap, in addition to the costs associated with the liquidation and acquisition; thus giving rise to tracking error.

- (j) Management risk – Since the Sub-Fund will not fully replicate the CSI 300, there is a risk that as the implementation of the Manager’s investment strategy is subject to a number of constraints, the investment strategy may not produce the intended results.
- (k) Risks relating to the CSI 300 – The Sub-Fund may be subject to the following risks in relation to the CSI 300:
  - (i) If the CSI 300 is discontinued or the Manager’s license from the Index Provider under the relevant license agreement is terminated, the Manager may, in consultation with the Trustee, seek the SFC’s prior approval to replace the CSI 300 with an index that is tradable and has similar objectives to the CSI 300 and notice will be given to Unitholders as soon as possible. For the avoidance of doubt, index-tracking will remain the Sub-Fund’s investment objective. The Manager’s license from the Index Provider may be terminated if the Index Provider ceases to calculate and publish the CSI 300 and the Index Provider should give written notice to the Manager (i) not less than ninety (90) days before such cessation or the notice period stipulated by the rules of dealing in funds of the relevant stock exchange (if any), whichever is longer, or (ii) such shorter notice period as agreed between the Manager and the Index Provider. Unless otherwise agreed between the Manager and the Index Provider, the Index Provider may terminate the Manager’s license by written notice under the following circumstances:
    - if the Manager ceases to develop and manage fund products which track the CSI 300 and the Manager should give written notice to the Index Provider of not less than ninety (90) days before such cessation or such shorter notice period as agreed between the Manager and the Index Provider;
    - if the fund product which tracks the CSI 300 managed by the Manager ceases to be listed;
    - if the Manager breaches the license agreement for the CSI 300 and fails to rectify the breach within thirty (30) days after the Index Provider has notified the Manager in writing of the breach;
    - if the size of the fund product which tracks the CSI 300 managed by the Manager is less than RMB100 million;
    - if the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Shenzhen Stock Exchange requests the Manager to cease developing and managing the fund product which tracks the CSI 300 or requests the Index Provider to terminate the license;
    - if the Manager commits a serious breach of the applicable national laws or violates the rules of the stock exchanges; or
    - other circumstances specified by laws.

Either the Manager or the Index Provider may terminate the licence agreement by written notice under the following circumstances:

- if the licence agreement cannot be performed due to force majeure events;
  - if the Index Provider loses the relevant rights in the CSI 300; or
  - if the Manager ceases business operations, is revoked or liquidated, or declares bankruptcy.
- (ii) There may be changes in the constituent securities of the CSI 300 from time to time. For example, the shares of a constituent company may be delisted or a new eligible company may be added to the CSI 300. In such circumstances, in order to achieve the investment objective of the Sub-Fund, the Manager may instruct the AXP issuer(s) to change the weighting or composition of the Basket of A Shares to which the AXPs held by the Sub-Fund are linked. The price of the Units may rise or fall as a result of these changes.
- (iii) The process and the basis of computing and compiling the CSI 300 and any of its related formulae, constituent companies and factors may also be changed or altered by the Index Provider at any time without notice. There is also no warranty, representation or guarantee given to the investors as to the accuracy or completeness of the CSI 300, its computation or any information related thereto.
- (l) Risk relating to listing – If the Units of the Sub-Fund are delisted from the SEHK, the Manager may, in consultation with the Trustee, seek the SFC's prior approval to operate the Sub-Fund as an unlisted index fund (subject to any necessary amendments to the rules of the Sub-Fund) or terminate the Sub-Fund and will notify investors accordingly.
- (m) Risk of limited duration of Sub-Fund – The AXP(s) held by the Sub-Fund is/are limited in duration. Unless extended by the relevant AXP issuer, the AXP(s) will settle automatically. There is no assurance that the relevant issuer will agree to extend the duration. In the event that the duration of the AXP(s) held by the Sub-Fund is not extended and the Manager cannot find a satisfactory alternative to track the CSI 300, the Sub-Fund may redeem all Units outstanding and the Manager will terminate the Sub-Fund. In such circumstance, the outstanding Units may be redeemed at the Net Asset Value which may differ from the trading price on the SEHK (which is affected by secondary market trading factors).
- (n) QFII system and regulation risk – Given that the issuance of the AXP(s) through the AXP issuer(s) and the Sub-Fund's investments in A Shares through the Manager depend on the ability of the QFIIs (including the Manager) to buy and sell A Shares, any restrictions or any changes in laws and regulations imposed by the PRC government on QFII's operations may adversely affect the direct investment in A Shares by the Manager using its QFII investment quota and/or issuance of AXP(s) by the AXP issuer(s) and/or cause Units in the Sub-Fund to trade at a discount on the SEHK. The Sub-Fund may not be able to fully implement or pursue its investment objective or strategy, due to the QFII investment restriction, illiquidity of the PRC

domestic securities market, and/or delay or disruption in execution or settlement of trades.

(o) QFII investment quota risk and limitation on creation and redemption of Units –

Under the QFII system, a QFII must obtain a QFII licence from the China Securities Regulatory Commission (“CSRC”) and approval from the State Administration of Foreign Exchange (“SAFE”) for an investment quota which is the limit within which the QFII may acquire A Shares:

- (i) In the event that the QFII wishes to increase its investment quota in the future, such increase may take time to obtain approval from SAFE and such approval is not guaranteed. Therefore, if the relevant QFII does not have sufficient investment quota, the relevant AXP issuer will cease to be under an obligation to extend the duration of the AXP(s) or to issue additional or further AXPs in which case further Units of the Sub-Fund cannot be created through the relevant Participating Dealer. The limitation on creation of Units of the Sub-Fund may in turn cause the Sub-Fund to trade at a higher premium to its Net Asset Value in comparison to a traditional exchange traded fund without such limitation on creation. In addition, if the QFII status or investment quota of the relevant QFII is revoked or reduced for any reason or if the relevant QFII is unable to increase its investment quota, the relevant AXP issuer may not be able to continue the existing AXPs (or any part thereof) or to issue further AXPs. The existing AXPs may therefore be adversely affected or terminated, in which case it may limit the creation of Units if the Sub-Fund cannot seek satisfactory alternatives to track the CSI 300.
- (ii) The Sub-Fund itself is not a QFII but may invest directly in A Shares via the QFII investment quota obtained by the Manager. Once the Manager has fully used its existing QFII investment quota, no further investment in A Shares may be made and the Manager may not be able to accept further Creation Applications directly from any Eligible Investor in such circumstances (in such case, any Eligible Investor may only apply for creation of Units through a Participating Dealer who may do so by transferring to, or for the account of, the Trustee, the relevant AXPs (or cash amount equivalent to the value of the relevant AXPs), unless no additional or further AXP is available). The limitation on creation of Units of the Sub-Fund may in turn cause the Sub-Fund to trade at a higher premium to its Net Asset Value in comparison to a traditional exchange traded fund without such limitation on creation. Also, the QFII status of the Manager could be revoked, in particular, because of material violations of the QFII regulations. Should the Manager lose its QFII status or the Manager retires or is removed, the Sub-Fund may not be able to invest through the Manager’s QFII investment quota in A Shares, and the Sub-Fund may be required to dispose of its holdings which would likely have a material adverse effect on the Sub-Fund.

There can be no assurance that the Manager will be able to provide sufficient QFII investment quota to meet all proposed investments to be made by the Sub-Fund, or that investments of the Sub-Fund can be realized in a timely manner due to possible adverse

changes in the relevant laws or regulations, which may impair the Sub-Fund's ability in pursuing its investment objectives or result in loss under extreme circumstances.

- (oa) QFII investment restrictions – Investors should note that direct investments in A Shares through QFIIs are subject to compliance with the following investment restrictions which are currently in force and applicable to each QFII (including the Manager):
- (i) shares held by each QFII in one listed company should not exceed 10% of the total outstanding shares in the company; and
  - (ii) total shares held by all QFIIs in one listed company should not exceed 30% of the total outstanding shares of that company.

However, strategic investments in listed companies listed on the PRC Stock Exchanges in accordance with the “Measures for the Administration of Strategic Investment of Foreign Investors in Listed Companies” are not subject to the above limitations.

The limit on the total shareholding will be applied to all underlying foreign investors. Thus, the capacity of the Sub-Fund to make investments in A Shares through the Manager's QFII investment quota will be affected by the activities of all underlying foreign investors, not just the Manager. However, it will be difficult in practice for the Manager, as a QFII, to monitor the investment of the underlying foreign investors since an investor may make investment through other QFIIs.

Although the Sub-Fund currently was initially allocated with the Manager's QFII investment quota of USD90 million, the initial QFII investment quota may be reduced, to the extent of such remitted amount as may be approved by the SAFE, from time to time as a result of repatriation of funds by the Manager. Further, investors should be aware that violations of the QFII regulations may arise out of activities relating to other portion of the Manager's QFII investment quota which may be utilized by its clients (other than the Sub-Fund) or other sub-fund(s) of the Fund to which the relevant portion(s) of the Manager's QFII investment quota have been allocated. Such violations could result in the revocation of or other regulatory action in respect of the QFII investment quota of the Manager as a whole, including any portion made available to or utilized by the Sub-Fund.

- (ob) Repatriation of capital or profits of a QFII –

There are rules and restrictions under the QFII regulations including rules on remittance of principal, investment restrictions, minimum investment holding periods, and repatriation of principal and profits. Such requirements may change from time to time.

- (i) Within 6 months (subject to any extension that may be granted by SAFE) from the date on which the Manager was formally granted its QFII investment quota, the Manager is required to remit the entire amount of investment principal into the RMB special account opened with the QFII Custodian. Any shortfall will automatically result in the amount of its QFII investment quota being lowered to the amount actually paid in provided that this is no less than the equivalent of US\$20 million. Repatriation of investment capital is subject to SAFE's

approval and there are restrictions imposed on the repatriation amount and interval. Investment capital once remitted cannot be re-invested and thus the QFII investment quota will be reduced by the repatriated amount accordingly. Please refer to the section "Creation and Redemption of Units - Redemption - General" for details with regard to the timeframe for settlement of the redemption proceeds.

- (ii) Net realized profits for any financial year of the QFII may be repatriated following completion of the audit of the QFII investment quota net realized profits by a PRC registered accountant for such period and all applicable tax having been paid. In this regard, the process of repatriations may be affected by any delay in completion of the audit QFII investment quota by the PRC registered accountant which may be out of the control of the Manager.
- (iii) The regulations on repatriation of capital and profits will also be applied to each QFII investment quota as a whole. In this regard, the capacity of the Sub-Fund to make investments in A Shares through the Manager's QFII investment quota and the ability to repatriate monies from the QFII investment quota granted to the Manager may be adversely affected by the investments, performance and/or repatriation of monies invested by other clients of the Manager utilizing its QFII investment quota.
- (iv) The restriction or delay in repatriation of invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests; thus adversely affecting the timing or ability of the investors to receive settlement.
- (oc) Dual role of the Manager – The Manager will assume dual roles as the manager of the Sub-Fund and the QFII holder. The Manager will be responsible for ensuring that all transactions and dealings will be dealt with having regard to the constitutive documents of the Sub-Fund as well as the relevant laws and regulations applicable to the Manager as a QFII. Also the Manager and the Trustee are affiliated. Situation may arise where there are conflicts of interest between such entities. If such conflict arises, each of the Manager and the Trustee will have regard in such event to its obligations to the Sub-Fund and will endeavour to ensure that the Sub-Fund is managed in the best interests of Unitholders and that such conflicts are resolved fairly.
- (od) QFII Custodian risk – Any A Shares acquired by the Sub-Fund through the QFII investment quota of the Manager will be maintained by its QFII custodian, in electronic form via a Securities Account with CSDCC and a Cash Account with the QFII Custodian, in accordance with the QFII Custodian Agreement. Further, the Manager has selected certain PRC Brokers to execute transactions for the Sub-Fund in the PRC markets. The Sub-Fund may incur losses due to the acts or omissions of the PRC Brokers, the QFII Custodian or the Manager, and will be exposed to the risk involved in the execution or settlement of transaction or in the transfer of any funds or securities in the PRC settlement system. Also, the Securities Account and Cash Account for the Sub-Fund in the PRC are maintained in the name "BOCI-Prudential Asset Management Limited – W.I.S.E. – CSI 300 China Tracker". Although the Manager has obtained a legal opinion that the assets in such Securities Account would belong to the Sub-Fund, such opinion cannot be relied on as being conclusive, as the relevant PRC regulations are subject to the interpretation of the relevant authorities in the PRC. In addition,



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

- (p) Risk of the AXP issuer not hedging its obligations under the AXPs – Each AXP issuer or any of its Connected Person(s) may, but is not obliged, to hedge its exposure arising from AXPs it has issued. If an AXP issuer has not hedged its exposure arising from AXPs it has issued, the AXP issuer will need to meet its obligations arising out of the AXP from its own funds. The ability of the AXP issuer to meet such obligations will depend on its financial stability. Further, where an AXP is hedged, the Sub-Fund has no proprietary or security interest over any assets underlying such hedge and the cost of unwinding the hedge will ultimately be borne by the Sub-Fund. There is no guarantee that any hedging will be effective to reduce the risk of the AXP issuer in not meeting its obligations under the AXP it has issued.
- (q) Liquidity of the AXPs – The AXPs invested by the Sub-Fund may not be listed. In case the AXP issuer does not, or is unable to buy back the AXP, the Sub-Fund may not be able to find a willing buyer and the Sub-Fund will not be able to liquidate the AXP. Further if the Sub-Fund wishes to realize the value of the AXP by redeeming or exercising an AXP, such redemption or exercise will be subject to the terms of the AXP. There may be circumstances, for example, in the event of market disruption, where the Sub-Fund will be unable to redeem or exercise the AXP. This will in turn affect the liquidity of the Sub-Fund.
- (r) Risk relating to AXP issuers – An AXP issuer or its guarantor must be a substantial financial institution. In the event of a crisis affecting the financial industry there is a higher probability that one or more AXP issuers may be affected and may not be able to fulfill their obligations under the AXPs issued. Furthermore, the commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among the financial institutions. As a result, the default of any large financial institution could cause further market-wide liquidity problems and significant volatility in the finance sector, which may in turn affect the ability of the AXP issuers to fulfil their obligations under the AXPs they have issued.
- (s) Risks associated with the Shanghai-Hong Kong Stock Connect – The Sub-Fund may, subject to any applicable limit as disclosed in this Prospectus, also invest in A Shares that are SSE Securities through the Shanghai-Hong Kong Stock Connect. In addition to the risks associated with the China market and risks relating to RMB, it is also subject to the following additional risks:
  - (i) Quota limitations: The Shanghai-Hong Kong Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota (as mentioned in the section “Shanghai-Hong Kong Stock Connect” in

Appendix I) drops to zero or the Northbound Daily Quota is exceeded during the opening call auction session (information relating to Trading Hours is described in the section “Shanghai-Hong Kong Stock Connect” in Appendix I), new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). Therefore, quota limitations may restrict the Sub-Fund’s ability to invest in A Shares through the Shanghai-Hong Kong Stock Connect on a timely basis, and the Sub-Fund may not be able to effectively pursue its investment strategies.

- (ii) Suspension risk: It is contemplated that both SEHK and Shanghai Stock Exchange would reserve the right to suspend Northbound and/or Southbound trading (information relating to Northbound and Southbound trading is described in the section “Shanghai-Hong Kong Stock Connect” in Appendix I) if necessary for ensuring an orderly and fair market and that risks are managed prudently. Consent from the relevant regulator would be sought before a suspension is triggered. Where a suspension in the Northbound trading through the Shanghai-Hong Kong Stock Connect is effected, the Sub-Fund’s ability to access the PRC market will be adversely affected.
- (iii) Differences in trading day: The Shanghai-Hong Kong Stock Connect will only operate on days when both the PRC and Hong Kong markets are open for trading and when banks in both markets are open on the corresponding settlement days. So it is possible that there are occasions when it is a normal trading day for the PRC market but Hong Kong investors (such as the Sub-Fund) cannot carry out any A Shares trading. The Sub-Fund may be subject to a risk of price fluctuations in A Shares during the time when Shanghai-Hong Kong Stock Connect is not trading as a result.
- (iv) Operation risk:
  - The Shanghai-Hong Kong Stock Connect provides a new channel for investors from Hong Kong and overseas to access the China stock market directly.
  - The Shanghai-Hong Kong Stock Connect is premised on the functioning of the operational systems of the relevant market participants. Market participants are able to participate in the Shanghai-Hong Kong Stock Connect subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Besides, securities regimes and legal systems of the two markets differ significantly and in order for the program to operate smoothly, market participants may need to address issues arising from the differences on an on-going basis.
  - The “connectivity” in the Shanghai-Hong Kong Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants (i.e. a new order routing system) to be set up by SEHK to which exchange participants need to connect. There is no

assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the Shanghai-Hong Kong Stock Connect could be disrupted. The Sub-Fund's ability to access the A Share market (and hence to pursue its investment strategy) will be adversely affected.

(v) Restrictions on selling imposed by front-end monitoring:

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

If the Sub-Fund desires to sell certain A Shares it holds, to the extent those A Shares are not kept in the Special Segregated Account (SPSA) maintained with CCASS, it must transfer those A Shares to the respective accounts of its brokers before the market opens on the day of selling. If it fails to meet this deadline, it will not be able to sell those shares on such day. Because of this requirement, the Sub-Fund may not be able to dispose of holdings of A Shares in a timely manner.

(vi) Recalling of eligible stocks: If a stock is recalled from the scope of eligible stocks for trading via the Shanghai-Hong Kong Stock Connect, the stock can only be sold and cannot be bought. This may affect the Sub-Fund's tracking of the CSI 300 if, for example, a constituent of the CSI 300 is recalled from the scope of eligible stocks. Investors should therefore pay close attention to the list of eligible stocks as provided and renewed from time to time by both the SSE and SEHK.

(vii) Clearing and settlement risk:

- The HKSCC and CSDCC will establish the clearing links and each will become a participant of each other to facilitate clearing and settlement of cross-boundary trades. For cross-boundary trades initiated in a market, the clearing house of that market will on one hand clear and settle with its own clearing participants, and on the other hand undertake to fulfil the clearing and settlement obligations of its clearing participants with the counterparty clearing house.
- Should the remote event of CSDCC default occur and CSDCC be declared as a defaulter, HKSCC's liabilities in Northbound trades under its market contracts with clearing participants will be limited to assisting clearing participants in pursuing their claims against CSDCC. HKSCC will in good faith, seek recovery of the outstanding stocks and monies from CSDCC through available legal channels or through CSDCC's liquidation. In that event, the Sub-Fund may suffer delay in the recovery process or may not be able to fully recover its losses from CSDCC.

- (viii) Counterparty risk relating to brokers: Investment through Shanghai-Hong Kong Stock Connect is conducted through broker(s), and is subject to the risks of default by such brokers' in their obligations. The Shanghai-Hong Kong Stock Connect follows the A Share settlement cycle where the A Shares are settled on the same trade day and cash on a T+1 basis. Although the Sub-Fund may have settlement arrangements in place with brokers different from the A Share settlement cycle, the deliveries of SSE Securities and payments therefor may not be simultaneous.
- (ix) Participation in corporate actions and shareholders' meetings:
- HKSCC will keep CCASS participants informed of corporate actions of SSE Securities. Hong Kong and overseas investors (including the Sub-Fund) will need to comply with the arrangement and deadline specified by their respective brokers or custodians (i.e. CCASS participants). The time for them to take actions for some types of corporate actions of SSE Securities may be as short as one Business Day only. Therefore, the Sub-Fund may not be able to participate in some corporate actions in a timely manner.
  - Hong Kong and overseas investors (including the Sub-Fund) are holding SSE Securities traded via the Shanghai-Hong Kong Stock Connect through their brokers or custodians. According to existing mainland practice, multiple proxies are not available. Therefore, the Sub-Fund may not be able to appoint proxies to attend or participate in shareholders' meetings in respect of the SSE Securities.
- (x) No Protection by Investor Compensation Fund:
- As disclosed under the section "Shanghai-Hong Kong Stock Connect" in Appendix I, the Sub-Fund's investments through Northbound trading under the Shanghai-Hong Kong Stock Connect is currently not covered by the Hong Kong's Investor Compensation Fund. Therefore the Sub-Fund is exposed to the risks of default of the broker(s) it engages in its trading in A Shares through the Shanghai-Hong Kong Stock Connect.
- (xi) Regulatory risk:
- The Shanghai-Hong Kong Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under Shanghai-Hong Kong Stock Connect.
  - It should be noted that the regulations are untested and there is no certainty as to how they will be applied. Moreover, the current

regulations are subject to change. There can be no assurance that the Shanghai-Hong Kong Stock Connect will not be abolished. The Sub-Fund, which may invest in the PRC markets through the Shanghai-Hong Kong Stock Connect, may be adversely affected as a result of such changes.

(t) Restrictions on creation and redemption of Units:

- (i) Investors should note that the Sub-Fund is not like a typical retail investment fund offered to the public in Hong Kong (for which units can generally be purchased and redeemed directly from the manager). Units of the Sub-Fund may only be created and redeemed in Application Unit sizes directly by Participating Dealer(s) or Eligible Investor(s) (save for, in the case of a Creation or Redemption Application by an Eligible Investor, subject to such terms and conditions as specified in the relevant application forms, the other requirements set out in the section "Creation and Redemption of Units" and any applicable regulations and restrictions relating to QFII or the Shanghai-Hong Kong Stock Connect (as the case may be)) from the Manager and may not be created or redeemed directly by other investors from the Manager. Such other investors may only make a request (and if such investor is a retail investor, through a stockbroker which has opened an account with a Participating Dealer) to create or redeem Units in Application Unit sizes through a Participating Dealer which reserves the right to refuse to accept a request from an investor to create or redeem Units under exceptional circumstances. Alternatively, investors may realize the value of their Units by selling their Units through an intermediary such as a stockbroker on the SEHK, and there is a risk that dealings on the SEHK may be suspended.
  - (ii) Also, the Manager (in its capacity as dealer for the Eligible Investors) reserves the absolute discretion to accept or reject a Creation Application by an Eligible Investor, though the Manager's rejection of a Creation Application by an Eligible Investor shall not affect the Eligible Investor's right to make an Application through a Participating Dealer. The Manager (in its capacity as dealer for the Eligible Investors) reserves the right to accept or reject a Redemption Application by an Eligible Investor under exceptional circumstances having regard to the interest of Unitholders as a whole, provided that the Manager must act reasonably and in good faith. The Manager may also charge such fees as the Manager may in its absolute discretion determine. Also, the Manager (in its capacity as dealer for the Eligible Investors) may reject a Creation Application or Redemption Application by an Eligible Investor in accordance with the terms and conditions set out in the relevant application form of the Eligible Investor.
- (u) Risk of withdrawal of authorization – The Sub-Fund has been authorized as a collective investment scheme under the UTMF Code by the SFC pursuant to section 104 of the Securities and Futures Ordinance. SFC authorization is not a recommendation or endorsement of the Sub-Fund nor does it guarantee the commercial merits of the Sub-Fund or its performance. It does not mean the Sub-Fund is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of

investors. The SFC reserves the right to withdraw the authorization of the Sub-Fund, for example, if the SFC considers the CSI 300 no longer acceptable.

- (v) Risk related to equity securities like A Shares –
  - (i) The Sub-Fund may invest directly in A Shares via the Manager's QFII investment quota allocated to the Sub-Fund from time to time or (if the relevant A Shares are SSE Securities) via the Shanghai-Hong Kong Stock Connect. The risks associated with investments in equity securities are high, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might decrease in value.
  - (ii) The stock exchanges in the PRC on which A Shares are traded are relatively at a developing stage and the choice of investments in the A Shares is limited as compared with other developed securities markets. The prices of the AXP(s) or A Shares held by the Sub-Fund and the Net Asset Value of the Sub-Fund may be adversely affected if markets for the A Shares are illiquid. Further, market volatility in the A Share markets may result in significant fluctuations in the prices of the AXP(s) or A Shares held by the Sub-Fund and hence in the value of the Sub-Fund. Potential illiquidity and volatility of the A Shares markets may have an adverse impact on the prices of the A Shares in which the Sub-Fund invests. The liquidity of the Sub-Fund will be affected by the liquidity of its investments and may be subject to restrictions imposed under Chinese regulations on repatriation of principal or profits in respect of investments held through QFIIs. Transaction sizes for QFIIs are relatively large (with the corresponding heightened risk of exposure to decreased market liquidity and significant price volatility leading to possible adverse effects on the timing and pricing of acquisition or disposal of securities). If the size of the disposals are sufficiently large, or the market is illiquid, then there is a risk that either the investments might not be sold or the price at which they are sold may adversely affect the Net Asset Value of the Sub-Fund.
- (w) Risk related to divergence between the market price of the Units and the Net Asset Value of the Sub-Fund – Investors should note that unlike a typical retail investment fund offered to the public in Hong Kong (the market price of the units of which is determined by the net asset value of the investment fund), the market price of the Units traded on the SEHK is determined not only by the Net Asset Value of the Sub-Fund but also by other factors such as the supply of and demand for the Units in the SEHK. Therefore, there is a risk that the market price of the Units traded on the SEHK may diverge significantly from the Net Asset Value of the Sub-Fund. In the event of liquidation of the Sub-Fund and if market prices of the Units is higher than the Net Asset Value of the Sub-Fund, investors may not be able to recover the difference between the market price of the Units and the Net Asset Value of the Sub-Fund.
- (x) PRC tax risk – According to the relevant PRC Enterprise Income Tax Law, a non-resident enterprise shall be liable for withholding tax on its income sourced from the PRC. Starting from 1 January 2008, a tax of 10% on dividends and interest income

sourced from the PRC should be withheld at source. However, no withholding tax has so far been levied on capital gains realized from dealing in A Shares. On 14 November 2014, the Ministry of Finance of the PRC, the State Administration of Taxation of the PRC and the CSRC issued the PRC CGT Circular (as referred to in Appendix V) along with the PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular (as referred to in Appendix V). Pursuant to the PRC CGT Circular, effective from 17 November 2014, capital gains derived by a QFII or RQFII from dealings in A Shares will be exempt from enterprise income tax; such exemption, however, will not apply to capital gains derived by a QFII or RQFII from transactions prior to 17 November 2014. Besides, pursuant to the PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular, effective from 17 November 2014, Hong Kong market investors, both enterprises and individuals, investing in A Shares that are SSE Securities via Shanghai-Hong Kong Stock Connect are exempt from income tax on capital gains derived from the sales of A Shares traded in the Shanghai Stock Exchange.

Accordingly, (i) from 17 November 2014 onwards (or, with regard to the Sub-Fund's direct investment in A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect, the date from which such investment commences) until further notice, the Sub-Fund or the AXP issuer will not set aside any provision for Capital Gain Tax derived from the gains from dealings in A Shares by the Manager as QFII or a QFII in relation to which the underlying A Shares to which an AXP is linked or by the Sub-Fund in investing in A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect; and (ii) the Manager as QFII and a QFII in relation to the underlying A Shares to which an AXP was linked would each be subject to tax on gains from dealings in A Shares derived up to and including 14 November 2014. The Manager and the QFII would pass on this potential tax liability to the Sub-Fund in the form of a Capital Gain Tax (as defined in Appendix V). The Manager will assess the Capital Gain Tax provision approach on an on-going basis. Should the PRC tax authorities in respect of the Capital Gain Tax change, the Manager may decide to set aside provision to meet any potential Capital Gain Tax liability in the future.

In order to meet the Capital Gain Tax derived from the gains from dealings in A Shares by a QFII up to and including 14 November 2014 (i) in respect of the AXPs, a provision of 10% has been made by an AXP issuer or the Sub-Fund (depending on the tax arrangement between the Sub-Fund and the relevant AXP issuer), and (ii) in respect of the A Shares acquired by the Manager on behalf of the Sub-Fund, a provision of 10% has been set aside by the Sub-Fund. However, the actual applicable tax rates imposed by the PRC tax authority may be different and may change from time to time. If the capital gain tax is levied, any tax liability for capital gains will be first satisfied by the Capital Gain Tax provision. If the actual applicable tax rate levied by the PRC tax authority is more than the Capital Gain Tax, the Sub-Fund will have to bear the additional tax liabilities.

The provisions of Capital Gain Tax in respect of AXPs issued by Deutsche Bank and the AXPs issued by UBS are made by Deutsche Bank and UBS respectively. The provision of Capital Gain Tax in respect of AXPs issued by Credit Suisse International and the A Shares acquired by the Manager on behalf of the Sub-Fund are made by the Sub-Fund. Please refer to pages 101 to 103 for further information on the Capital Gain Tax provisions.

Further, to date, a 10% PRC withholding tax has been levied on dividend and interest payments from PRC listed companies to foreign investors. As such, the QFII will also pass on this tax liability to the Sub-Fund in the form of a Distribution Tax (as defined in Appendix V) and therefore, the Sub-Fund is subject to a Distribution Tax of 10%. There is no assurance that the rate of the Distribution Tax will not be changed by the PRC tax authority in the future.

#### *Impact and Adjustments*

As the Sub-Fund is the ultimate party which bears the risks relating to the Capital Gain Tax liability of a QFII (including the Manager) in relation to the underlying A Shares of the CSI 300 (unless otherwise stated in this section), any future changes in the taxation policies in respect of QFII's or the Sub-Fund's investment in A Shares in the PRC will impact on the Sub-Fund's returns. As the Issue Price and the Redemption Price of the Sub-Fund is based on the Net Asset Value of the Sub-Fund and the Net Asset Value of the Sub-Fund is calculated net of the Capital Gain Tax provision and the Distribution Tax (where applicable), investors should note that the Issue Price or Redemption Price (as the case may be) paid by investors for creation or redemption (as the case may be) of Units would have already taken into account the Capital Gain Tax and the Distribution Tax. Any retrospective enforcement of PRC Capital Gain Tax exceeding the Capital Gain Tax provision may result in a substantial or significant decline in the Net Asset Value of the Sub-Fund. Consequently, a Unitholder may in effect suffer substantial or significant losses arising out of taxes in respect of capital gains sustained by the QFIIs up to and including 14 November 2014 (and therefore the Sub-Fund).

Investors should also note that there may be variations to the Capital Gain Tax arrangements with each AXP issuer. Such information will be posted on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).

#### (y) Risks relating to obligations of the Sub-Fund under FATCA Regulations

The Sub-Fund will endeavour to satisfy any obligations imposed under the FATCA regulations so as to avoid the imposition of FATCA withholding, however, no assurance can be given that the Sub-Fund will be able to satisfy those obligations. If the Sub-Fund becomes subject to FATCA withholding, the value of the Units held by the Unitholders may suffer material losses.

If the Unitholder or an intermediary through which it holds interest in the Sub-Fund fails to provide the Sub-Fund, its agents or authorised representatives with complete and accurate information that may be required by the Sub-Fund to comply with FATCA, the Unitholder may be subject to withholding on amounts otherwise distributable to the Unitholder, may be compelled to sell his interest in the Sub-Fund, or in certain situations, the Unitholders' interest in the Sub-Fund may be sold involuntarily (provided that the Sub-Fund observes relevant legal requirements and acts in good faith).

In cases where Unitholders invest in the Sub-Fund through an intermediary, Unitholders are reminded to check whether such intermediary is FATCA compliant. If Unitholders are in any doubt, they should consult their tax advisor, stockbroker, bank



manager, solicitor, accountant and other financial adviser regarding the possible implications of FATCA on the Unitholders and the Sub-Fund.

Unitholders, and intermediaries acting for Unitholders, should therefore take note that if they meet the definition of US Person for FATCA purpose then they will need to declare this to the Sub-Fund and submit any mandatory documentation.

(z) Withholding Tax Risk

Investors should note that (i) the proceeds from the sale of securities in some markets or the receipt of any dividends or other income may be or may become subject to tax, levies, duties or other fees or charges imposed by the authorities in that market including taxation levied by withholding at source and/or (ii) the Sub-Fund's investments may be subject to specific taxes or charges imposed by authorities in some markets. The FATCA rules generally impose a 30% withholding tax on (a) certain US source payments (including interest and dividends) and gross proceeds from the sale or other disposition of property that can produce US source interest or dividends (such as bonds or shares issued by a US issuer) ("withholdable payments"), and (b) "foreign passthru payments" (generally, payments that are attributable to withholdable payments made by certain non-US entities (collectively referred to as "passthru payments"). Under the FATCA rules, if the Sub-Fund does not or cannot report to the IRS information regarding a US Person that indirectly holds interests in the Sub-Fund, and to comply with certain other reporting, verification, due diligence and other requirements, the Sub-Fund generally would be subject to 30% withholding tax on passthru payments received by the Sub-Fund, which would reduce the Sub-Fund's value. Although the Sub-Fund will attempt to satisfy any obligations imposed on it to avoid the imposition of the FATCA withholding tax, no assurance can be given that the Sub-Fund will be able to satisfy those obligations. If the Sub-Fund becomes subject to a withholding tax as a result of the FATCA regime, the value of the Units held by Unitholders may suffer material losses.

Even if the Sub-Fund is able to comply with the requirements under the FATCA rules, Unitholders that fail to comply with information requests (including information requests from certain non-US entities through which payments from the Sub-Fund may be made) or otherwise comply with the requirements of the FATCA rules may be subject to a 30% withholding tax on passthru payments made by the Sub-Fund. Additionally, the Sub-Fund may be required to withhold tax on passthru payments made by the Sub-Fund to certain non-US entities (for example, a Unitholder's Hong Kong investment dealer) that are not in compliance with the FATCA rules, including certain non-US financial institutions through which distributions on the Units may be made.

The imposition of the 30% withholding tax under the FATCA rules could result in materially reduced investment returns for the Unitholders, including in circumstances where the withholding tax is imposed on passthru payments received by the Sub-Fund from the portfolio. The administrative costs arising from compliance with the FATCA rules may also cause an increase in the operating expenses of the Sub-Fund, thereby further reducing returns to Unitholders.

Unitholders should consult their independent tax advisor regarding the potential effect

of the FATCA rules to an investment in the Sub-Fund.

- (aa) Risk of absence of active market – There can be no assurance that an active trading market in respect of the Units in the Sub-Fund will be developed or maintained. There is no certain basis for predicting the actual price levels at which, or the sizes in which, the Units in the Sub-Fund may trade. There can be no assurance that the Units in the Sub-Fund will experience trading or pricing patterns similar to those of other exchange traded funds which are issued by investment companies in other jurisdictions or are traded on the SEHK.
- (bb) Risk relating to the AXP – Investors should note that there may not be an active secondary market for the AXPs. The illiquidity may result in the AXPs being sold at a discount or premium to the value of the underlying A shares, thus the Net Asset Value of the Sub-Fund may be adversely affected. Further, in the event that the existing AXPs (or any part thereof) cannot be continued and other AXPs have to be sought, additional costs may be involved for such replacement.
- (cc) Collateral risks –
  - (i) Collaterals not being CSI 300 constituent stocks – Due to restrictions under the PRC law, the Sub-Fund will not be able to take CSI 300 constituent stocks, being A Shares, as collaterals. Currently the Sub-Fund accepts collaterals in the form of constituent stocks of the Hang Seng Index and/or the Hang Seng China Enterprises Index and/or Hang Seng Composite Index and/or SFC authorized physical RQFII ETF units (up to 10% of the Net Asset Value of the Sub-Fund) and/or cash or cash equivalents as collateral but this may change in light of prevailing market conditions. Where the value of the CSI 300 constituent stocks increase, there may not be a corresponding increase in the value of the Hang Seng Index constituent stocks or Hang Seng China Enterprises Index constituent stocks or Hang Seng Composite Index constituent stocks and/or SFC authorized physical RQFII ETF units (up to 10% of the Net Asset Value of the Sub-Fund) (as the case may be) or other collaterals accepted by the Sub-Fund. However, the Manager will seek additional collaterals from the AXP issuers to ensure that the collateral held by the Sub-Fund will represent at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuers and there is no uncollateralized counterparty risk exposure.
  - (ii) Revised Collateral Management Policy – As a result of the revised Collateral Management Policy, the Sub-Fund will have to bear increase in fees, charges and expenses in relation to the additional collateral taken by the Sub-Fund, that is, the requirement that the collateral held by the Sub-Fund should represent at least 100% of the Sub-Fund's gross total counterparty risk exposure towards the AXP issuer. The increased cost may have an adverse impact on the Net Asset Value and the performance of the Sub-Fund and the changes in the Net Asset Value of the Sub-Fund may deviate from the performance of the underlying index and may give rise to increased tracking error. Such fees, charges and expenses may vary from time to time depending on the types of collateral obtained and other market factors. The tracking error risk will also increase in the event that the Sub-Fund is holding more cash than the normal level as a result of a number of factors, such as, the unwinding of AXPs; the selling back

of AXP to the AXP issuer with no replacement AXPs; the liquidation of collateral upon default of a counterparty. In such situation, the Sub-Fund may not be sufficiently exposed to the economic performance of the underlying index. If no suitable replacement vehicle exists by that time, the Manager may not be able to reduce the tracking error in an effective manner.

- (dd) Potential conflicts of interest – The Manager and the Trustee and Custodian or their Connected Persons may, from time to time, act as manager, investment adviser, trustee or as custodian or in such other capacity in connection with or be otherwise involved in or with any other collective investment schemes separate and distinct from the Fund and the Sub-Fund. It is possible that any of the Manager and the Trustee and Custodian or their Connected Persons may, in the course of business, have potential conflicts of interest with the Sub-Fund. Each of the Manager and the Trustee and Custodian or their Connected Persons will, at all times, have regard in such event to its obligations to the Sub Fund and the investors and will endeavour to ensure that such conflicts are resolved fairly. Please refer to the section on “Potential Conflict of Interest, Transactions with Connected Persons and Soft Commissions” on pages 64 to 66 for details.
- (ee) Legal and Regulatory risk – The Sub-Fund must comply with its authorization conditions and all regulatory requirements applicable to the Sub-Fund. Changes in the authorization conditions of the Sub-Fund and/or laws, regulatory requirements and/or imposition of new regulatory actions or restrictions may require changes in the operation or administrative rules of the Sub-Fund, constitutive or offering documents of the Sub-Fund. Such changes may have an impact on the operation costs of the Sub-Fund and may have an impact on the market sentiment which may in turn affect the market performance of the Sub-Fund. It is impossible to predict whether such an impact caused by regulatory changes will be positive or negative for the Sub-Fund. In the worst case scenario, an investor may suffer serious loss of its investments in the Sub-Fund.

### ***Risk Management Policies***

In accordance with the investment objectives and policies of the Sub-Fund, the Manager may:

- (a) study and assess the political, economic, social, legal, taxation and investment policy in PRC for foreign investors;
- (b) enter into AXPs issuance and participating agreements with reputable counterparties with good credit ratings which possess QFII status and has investment quota (within the same group of companies) and conduct regular review on the counterparties’ financial positions and credit ratings;
- (c) implement measures including but not limited to obtaining collaterals from the relevant AXP issuer(s) (for example, by way of a securities borrowing and lending arrangement or putting a charge on assets) or appointing additional AXP issuers to mitigate counterparty risk as it deems appropriate;
- (d) monitor the position and concentration of the collateralized securities received by the Sub-Fund; and

- (e) conduct regular review on the economic developments of the underlying market of the AXP issuers, and the financial positions and credit ratings of the issuers.

## **INVESTMENT AND BORROWING RESTRICTIONS**

### ***Investment Restrictions***

The Trust Deed imposes a number of restrictions and prohibitions on investment of the Sub-Fund. So long as the Sub-Fund is authorized by the SFC pursuant to the UTMF Code, the assets of the Sub-Fund may be invested only in the investments permitted under and in accordance with Chapters 7 and 8 of the UTMF Code issued by the SFC (as applicable).

A summary of the investment restrictions of the Sub-Fund is as follows:

- (1) No investment shall be purchased, made or added to if as a result thereof:
- (a) the value of the Sub-Fund's latest holding of AXP(s) in respect of a particular A Share or a Basket of A Shares would exceed ten per cent (10%) of the latest available Net Asset Value of the Sub-Fund as at the time the investment is made unless:
    - it is limited to a particular A Share that accounts for more than ten per cent (10%) of the weighting of the CSI 300 and unless otherwise approved by the SFC, the weighting of that A Shares underlying the AXP(s) under the Sub-Fund may not exceed that A Shares' weighting in the CSI 300, except where the weightings are exceeded as a result of changes in the composition of the index and the excess is only transitional and temporary in nature; or
    - where the Sub-Fund adopts a representative sampling strategy which does not involve the full replication of the constituent securities of the CSI 300 in the exact weightings of the CSI 300, the Sub-Fund may overweight the underlying holdings of a particular A Share's weighting in the CSI 300 provided that any such excess of weightings is subject to a maximum limit of four per cent (4%) or such other percentage as determined by the Manager after consultation with the SFC having regard to the characteristics of the underlying A Share, its weighting, the investment objectives of the CSI 300 and any other suitable factors; or
    - otherwise approved by the SFC.
  - (b) the nominal amount of the Sub-Fund's holding of ordinary shares in the capital of any single issuer, when aggregated with the holdings of such ordinary shares held by all other sub-funds of the Fund, would exceed ten per cent (10%) of the total nominal amount of all the ordinary shares in the capital of that issuer in issue;
  - (c) the value of the Sub-Fund's holding of units in Collective Investment Schemes would in aggregate exceed ten per cent (10%) of the latest available Net Asset

Value of the Sub-Fund as at the time investment is made PROVIDED THAT no investment may be made in any Collective Investment Scheme managed by the Manager or by a Connected Person of the Manager if such investment would result in an increase in the overall total of Manager's fees and other costs and charges borne by the Unitholders or by the Sub-Fund; and

- (d) the value of the Sub-Fund's latest holding of securities neither listed nor quoted on a securities market would exceed fifteen per cent (15%) of the latest available Net Asset Value of the Sub-Fund as at the time the investment is made.
- (2) Subject to (1)(a) above, the value of the Sub-Fund's holding in Government and other public securities (as defined under Chapter 7 of the UTMF Code) of the same issue may exceed thirty per cent (30%) of the latest available Net Asset Value of the Sub-Fund at the time the investment is made. Further, subject to (1)(a) above, the Manager may invest all of the assets of the Sub-Fund in Government and other public securities (as defined under Chapter 7 of the UTMF Code) in any number of different issues.
- (3) The Manager shall not on behalf of the Sub-Fund:
- (a) invest in a Security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5 per cent (0.5%) of the total nominal amount of all the issued securities of that class, or collectively the directors and officers of the Manager own more than five per cent (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 that are listed on a stock exchange);
  - (c) make short sales if it results in the Sub-Fund's liability to deliver Securities exceeding ten per cent (10%) of the latest available Net Asset Value of the Sub-Fund or if the Security which is to be sold short is not actively traded on a market where short selling activity is permitted;
  - (d) write uncovered options;
  - (e) write a call option on investments if the aggregate exercise price of such call option and of all other unexpired call options written for the account of the Sub-Fund would exceed twenty five per cent (25%) of the latest available Net Asset Value of the Sub-Fund in terms of exercise price as at the time the investment is made;
  - (f) without the prior written consent of the Trustee, lend, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person;
  - (g) enter into any obligation or acquire any asset which involves the assumption of any liability by the Trustee (in the capacity of the trustee of the Sub-Fund) which is unlimited;

- (h) invest in options and warrants for purposes other than hedging if the aggregate amount of premium paid exceeds fifteen per cent (15%) of the latest available Net Asset Value of the Sub-Fund as at the time the investment is made; or
  - (i) enter into futures contract on an unhedged basis if the net total aggregate value of contract prices, whether payable to or by the Sub-Fund under all outstanding futures contracts, together with the aggregate value of holdings of physical commodities and commodity based investments exceed twenty per cent (20%) of the latest available Net Asset Value of the Sub-Fund as at the time the investment is made; or
  - (j) invest in any stock the transfer of which is required to be registered in Hong Kong. For the avoidance of doubt, although the Sub-Fund will, in respect of its investment in AXP's, obtain collateral which will include such stocks, such collateral is not part of the investment of the Sub-Fund. Please refer to pages 18 to 20 for more information.
- (4) For the avoidance of doubt, if no authorization of the SFC is required under the Securities and Futures Ordinance in respect of the Sub-Fund, none of the provisions in (1) to (3) shall be applicable to the Sub-Fund.
- (5) Subject to the provisions of the Trust Deed, the Trustee may at the request of the Manager arrange for any Securities for the time being comprised in the Sub-Fund to be loaned by, or Securities to be loaned to, the Fund through the agency of or directly with any person acceptable to the Trustee (including the Manager or the Trustee or any Connected Person of either of them). The Trustee shall only arrange for any Securities for the time being comprised in a Sub-Fund to be loaned by the Fund if the Trustee has used reasonable endeavours to satisfy itself that the relevant counterparties are banks or other financial institutions of sound financial standing with a credit rating in respect of senior debt of at least A- by Standard & Poor's or equivalent rating given by Moody's or by Fitch and that adequate collateral of a value greater than or equal to the value of the securities lent (including, but not limited to, treasury bills, bankers' acceptances, certificates of deposit, bonds, equities, letters of credit and cash collateral) of sufficient liquidity will have been provided to the Fund by the borrower. Any income attributable to the Fund as a result of such loan (if any) shall, on receipt by the Trustee and after deducting any fees and commission payable, be credited to the Sub-Fund. Where the loan has been arranged through a securities lending agent, the securities lending agent may retain for its own use and benefit any fee or commission it receives on a commercial arm's length basis in connection with such arrangement. Where any loan has been arranged through the Manager or the Trustee or a Connected Person of either of them, the relevant entity shall be entitled to retain for its own use and benefit any fee or benefit it receives on a commercial basis in connection with such arrangement. The maximum level of Securities available for lending shall be limited to one hundred per cent (100%) of the latest available Net Asset Value of the Sub-Fund or such other percentage as may from time to time be determined by the Manager. If the lending counterparty is an affiliate of the Manager, the lending transactions will be disclosed in the Fund's annual reports.

### ***Borrowing Restrictions***

The Manager may borrow cash of up to twenty-five per cent (25%) of the latest available net asset value of the Sub-Fund as at the time the investment is made for the following purposes:

- facilitating the creation or redemption of Units or defraying operating expenses;
- enabling the Manager to acquire investments for the account of the Sub-Fund; or
- any other purposes as may be agreed by the Manager and the Trustee from time to time.

The assets of the Sub-Fund may be charged or pledged as security for any such borrowings. For the avoidance of doubt, back-to-back loans will not be taken into account when determining whether or not the 25% limit mentioned above has been breached by the Sub-Fund.

For the purpose of the collateral arrangement by way of a securities borrowing and lending arrangement, the Manager may borrow non-cash assets of up to 100% of the latest available Net Asset Value of the Sub-Fund.

### ***General***

If any of the investment and borrowing restrictions are breached, the Manager shall as a priority objective take all steps necessary as soon as practicable to remedy the situation, having due regard to the interests of Unitholders. The Manager is not immediately required to sell applicable investments if any of the investment restrictions are exceeded as a result of changes in the value of the Sub-Fund's investments, reconstructions or amalgamations, payments out of the assets of the Sub-Fund or redemptions of Units but for so long as such limits are exceeded, the Manager shall not acquire any further investments which would result in such limit being further breached.

## MANAGEMENT AND ADMINISTRATION

### *Manager and Listing Agent*

BOCI-Prudential Asset Management Limited is the manager and the listing agent of the Sub-Fund. BOCI-Prudential Asset Management Limited is a joint venture between BOCI Asset Management Limited and Prudential Corporation Holdings Limited. BOCI Asset Management Limited is a wholly owned subsidiary of BOC International Holdings Limited which in turn is a wholly owned subsidiary of Bank of China Limited. BOCI-Prudential Asset Management Limited is specialized in security-based portfolio management business. Teaming up with elite investment professionals, BOCI-Prudential Asset Management Limited is devoted to providing advanced and quality services to its clients and is committed to be a professional, prudent and reliable fund management house.

BOCI-Prudential Asset Management Limited is licensed by the SFC in Hong Kong for types 1, 4, 5, 6 and 9 regulated activities under the Securities and Futures Ordinance.

BOCI-Prudential Asset Management Limited is a QFII and has been granted a QFII licence by the CSRC on 3 May 2012 and an initial investment quota by SAFE of US\$90 million on 21 August 2012 to make direct investments in A Shares for the account of the Sub-Fund. BOCI-Prudential Asset Management Limited will allocate such portion of its QFII investment quota to the Sub-Fund for its use as BOCI-Prudential Asset Management Limited may determine with, where applicable, the approval of the relevant PRC authorities. The investment quota initially allocated to the Sub-Fund may be reduced, to the extent of such remitted amount as may be approved by the SAFE, from time to time as a result of repatriation of funds by the Manager. The Manager may invest up to the QFII investment quota allocated to the Sub-Fund from time to time in acquiring A Shares for the account of the Sub-Fund.

### *Trustee and Custodian*

The trustee and custodian of the Sub-Fund is BOCI-Prudential Trustee Limited, which is a registered trust company in Hong Kong.

The Trustee is a joint venture founded by BOC Group Trustee Company Limited and Prudential Corporation Holdings Limited (“**PCHL**”). BOC Group Trustee Company Limited is owned by BOC International Holdings Limited (“**BOCI**”) and Bank of China (Hong Kong) Limited (“**BOC(HK)**”), which are subsidiaries of Bank of China Limited. The principal activity of the Trustee is the provision of trustee services.

Under the Trust Deed, the Trustee is responsible for the safekeeping of the assets of the Sub-Fund. The Trustee may, however, appoint any person or persons to be custodian of such assets. The Trustee is required to exercise reasonable skill, care and diligence in the selection, appointment and monitoring of such persons and, during the term of their appointment, must satisfy itself as to the ongoing suitability of such persons to provide custodial services to the Fund, having regard to the market or markets for which such persons are appointed to act as custodian. The Trustee will remain responsible for the acts or omissions of such persons in the same manner as if such acts or omissions were those of the Trustee, except where such persons are appointed in respect of a market or markets which the Trustee has determined by notice to the Manager to be emerging markets. Notwithstanding the above, the Trustee will remain



responsible for the acts or omissions of any associate of the Trustee appointed in respect of an emerging market.

Since the Sub-Fund may invest in the A Shares directly through the Manager's QFII investment quota, the Trustee has put in place proper arrangements to ensure that:

- (a) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including onshore PRC assets which will be maintained by the QFII Custodian in electronic form via the Securities Account(s) with the relevant depositories and any assets deposited in the Cash Account with the QFII Custodian ("**Onshore PRC Assets**"), and hold the same in trust for the Unitholders;
- (b) cash and registrable assets of the Sub-Fund, including Onshore PRC Assets, are registered in the name of or to the order of the Trustee; and
- (c) the QFII Custodian will look to the Trustee for instructions and solely act in accordance with the Trustee's instructions as provided in the QFII Custodian Agreement.

### ***QFII Custodian***

Standard Chartered Bank (China) Limited has been appointed as the local custodian in the PRC in relation to the Sub-Fund pursuant to the QFII Custodian Agreement. Standard Chartered Bank (China) Limited is incorporated in China under the business license number 310000400507918 and has its registered office at Standard Chartered Tower, 201 Century Avenue Pudong, Shanghai 200120 China. Standard Chartered Bank (China) Limited is regulated by the Chinese Banking Regulatory Commission under the register number B0048H131000001. Subject to the relevant regulatory provisions, the QFII Custodian may be changed from time to time with not less than one (1) month's prior notice to Unitholders.

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

- (a) the securities account(s) ("**Securities Account(s)**") with the CSDCC and opened by the QFII Custodian as authorized by the QFII have been opened in the name "BOCI-Prudential Asset Management Limited - W.I.S.E. – CSI 300 China Tracker" and for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approvals from all competent authorities in the PRC;
- (b) RMB basic deposit account and RMB special deposit accounts (i.e. "**Cash Account(s)**") have been opened with the PRC Custodian and in the name "BOCI-Prudential Asset Management Limited – W.I.S.E. – CSI 300 China Tracker" in accordance with all applicable laws and regulations of the PRC and with approvals from all competent authorities in the PRC;
- (c) the assets held/credited in the Securities Account(s) (i) belong solely to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the QFII holder), the Custodian, PRC Custodian and the PRC Brokers, and from the assets of other clients of the Manager (as the QFII holder), the Custodian, the PRC Custodian and the PRC Brokers;

- (d) the assets held/credited in the Cash Account(s) (i) become an unsecured debt owing from the PRC Custodian to the Sub-Fund, and (ii) are segregated and independent from the proprietary assets of the Manager (as the QFII holder) and the PRC Brokers, and from the assets of other clients of the Manager (as the QFII holder) and the PRC Brokers;
- (e) the Trustee acting for and on behalf of the Sub-Fund is the only entity which has a valid claim of ownership over the assets in the Securities Accounts and the debt in the amount deposited in the Cash Account(s) of the Sub-Fund;
- (f) if the Manager or any PRC Broker is liquidated, the assets contained in the Securities Account(s) or the Cash Account(s) will not form part of the liquidation assets of the Manager or the PRC Broker in liquidation under the PRC laws; and
- (g) if the PRC Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Custodian in liquidation in the PRC, and (ii) the assets contained in the Cash Account(s) of the Sub-Fund will form part of the liquidation assets of the PRC Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Account(s).

### ***Registrar***

Computershare Hong Kong Investor Services Limited is the registrar of the Sub-Fund. The registrar provides services in respect of the establishment and maintenance of the Register of the Unitholders of the Sub-Fund.

### ***Service Agent***

HK Conversion Agency Services Limited is the service agent of the Sub-Fund under the terms of the service agreement entered into among the Manager, the Trustee, HK Conversion Agency Services Limited, the HKSCC, Computershare Hong Kong Investor Services Limited and each Participating Dealer. The HK Conversion Agency Services Limited will perform certain services in connection with the creation and redemption of Units by the Participating Dealer(s), and/or by the Manager (in its capacity as dealer for the Eligible Investors) on behalf of the Eligible Investors.

## **CREATION AND REDEMPTION OF UNITS**

### ***Creation of Units – General***

Unless otherwise determined by the Manager and the Trustee, a Creation Application shall only be made by a Participating Dealer in accordance with the terms of the Trust Deed and the relevant Participation Agreement on a Dealing Day in respect of Units constituting an Application Unit size or whole multiples thereof. Alternatively, Eligible Investors may make a Creation Application via the Manager (in its capacity as dealer for the Eligible Investors) to effect a creation of Units constituting an Application Unit size or whole multiples thereof in the manner as set out in this Prospectus. The dealing period on each Dealing Day commences at 12:00 noon and ends at the Dealing Deadline at 3:00 p.m., as may be revised by the Manager from time to time. A Creation Application once given cannot be revoked or withdrawn without

the consent of the Manager (which consent shall not be unreasonably withheld). For the avoidance of doubt, the Manager may process Creation Applications made by itself or its affiliates, whether such Creation Applications are made for its own account or on behalf of a third party investor. Investors should also note that different dealing deadlines may be imposed by the Participating Dealer or the Manager (with respect to Creation Applications made by an Eligible Investor) if the application is made through them.

#### *Creation of Units by an Eligible Investor*

Depending on the availability of the Manager's existing QFII investment quota and any additional QFII investment quota and/or subject to any applicable regulations and restrictions relating to QFII or the Shanghai-Hong Kong Stock Connect (as the case may be), the Manager may, at its discretion, accept applications for subscription of Units. Because the Manager has the capacity to act as dealer for the Eligible Investors, an Eligible Investor may directly make a request to the Manager (in its capacity as dealer for the Eligible Investors) to create Units. The creation request by an Eligible Investor must be in Application Unit size or whole multiples thereof and in cash. No in-kind creation may be made by an Eligible Investor. The Manager reserves the absolute discretion to accept or refuse Creation Applications that may be made by an Eligible Investor, though the Manager's rejection of a Creation Application by an Eligible Investor shall not affect the Eligible Investor's right to make an Application through a Participating Dealer.

In respect of a Creation Application, an Eligible Investor must deliver to or for the account of the Trustee a cash payment equivalent to the Net Asset Value (as at the date on which the Creation Application is accepted and rounded to the nearest fourth (4<sup>th</sup>) decimal place) (the "**Subscription Amount**") of the Units applied for in the Creation Application. In addition, the Manager shall be entitled in its absolute discretion to charge to each relevant Eligible Investor a handling fee of up to 6% of the Subscription Amount. Such handling fee represents the payment of the Duties and Charges for acquiring the relevant Securities, compensation to the Sub-Fund for any potential market risks and the servicing fee which is payable to the Manager (in its capacity as dealer for the Eligible Investors) for its use and benefit.

The Manager may increase the maximum specified rate of the handling fee by no less than one (1) month's written notice to the Unitholders.

#### *Procedures for Creation of Units*

##### *Creation by Participating Dealer*

A Creation Application by a Participating Dealer must comply with the requirements in respect of creation of Units set out in the Trust Deed and the relevant Participation Agreement and be accompanied by such certifications and legal opinions as the Trustee and the Manager may require in order to be effective. Pursuant to a valid Creation Application by a Participating Dealer accepted by the Manager, the Manager and/or any person appointed by the Manager for such purpose shall have the exclusive right to instruct the Trustee to create for the account of the Sub-Fund the Units in a class in Application Unit size in exchange for the transfer by the relevant Participating Dealer, to or for the account of the Trustee, of:

- (a) in the Manager's absolute discretion,

- (i) one or more AXPs, each of which is linked to an A Share or a Basket of A Shares, for the relevant Units and a cash amount equivalent to any duties and charges payable; or
  - (ii) a cash payment equivalent to the value of relevant AXP(s) (which shall be accounted for as Deposited Property), in which case, the Manager shall be entitled in its absolute discretion to charge (for the account of the Sub-Fund) to the relevant Participating Dealer of any Units for which cash is paid in lieu of delivering the AXP(s) an additional sum which represents the appropriate provision for duties and charges; or
  - (iii) a combination of (i) and (ii) above;
- plus,
- (b) if the Cash Component is a positive value, a cash payment equivalent to the amount of the Cash Component; if the Cash Component is a negative value, the Trustee shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to the relevant Participating Dealer. If the Sub-Fund has insufficient cash required to pay any Cash Component payable by the Sub-Fund, the Manager may instruct the Trustee to sell the Deposited Property of the Sub-Fund, or to borrow moneys to provide the cash required.

Where the Manager exercises its absolute discretion under paragraph (a) above, it shall take into account of the investment objective of the Sub-Fund.

Units are denominated in the Base Currency (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee. Once Units are created, the Manager shall instruct the Trustee to issue, for the account of the Sub-Fund, the Units to the relevant Participating Dealer in accordance with the relevant Operating Guidelines. In respect of each Creation Application by a Participating Dealer, the Issue Price of a Unit of any class in the Sub-Fund shall be equal to one-hundredth (1/100th) of the closing level of the CSI 300 on the Initial Issue Date. After the Initial Issue Date, the Issue Price of a Unit of any class in the Sub-Fund shall be the Net Asset Value per Unit of the relevant class as at the relevant Dealing Day rounded to the nearest fourth (4<sup>th</sup>) decimal place. Any commission, remuneration or other sum payable by the Manager to any agent or other person in respect of the issue or sale of any Unit shall not be added to the Issue Price of such Unit and shall not be paid by the Sub-Fund.

Where a Creation Application by a Participating Dealer is received or deemed to be received and accepted before the Dealing Deadline on a Dealing Day, creation and issue of Units pursuant to that Creation Application shall be effected on that Dealing Day, but :

- (a) for valuation purposes only, Units shall be deemed to be created and issued after the Valuation Point on that Dealing Day; and
- (b) the Register shall be updated on the Settlement Day or (if the settlement period is extended) the Dealing Day immediately following the Settlement Day provided that the Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the Register if at any time the Trustee is of the opinion that the issue of Units does not comply with the provisions of the Trust Deed.

Where a Creation Application by a Participating Dealer is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that Creation Application shall be carried forward and deemed to be received at the opening of business on the next following Dealing Day, which shall be the Dealing Day for the purposes of that Creation Application.

In respect of each Creation Application by a Participating Dealer, the Manager shall be entitled to, for the account and benefit of the Trustee, charge the Transaction Fee, which shall be paid by or on behalf of the relevant Participating Dealer and may be set off and deducted against any Cash Component due to the relevant Participating Dealer in respect of such Creation Application. The Manager shall have the right to revise the amount of the Transaction Fee it charges provided that the level of Transaction Fee charged to all Participating Dealers is the same.

#### Creation by Eligible Investors

An Eligible Investor, subject to the terms and conditions as specified in the relevant application forms, the other requirements set out below and any applicable regulations and restrictions relating to QFII or the Shanghai-Hong Kong Stock Connect (as the case may be), may apply to the Manager (in its capacity as dealer for the Eligible Investors) to create Units.

Unless otherwise determined by the Manager, a Creation Application by an Eligible Investor must satisfy the following in order to be effective:

- (a) comply with the requirements in respect of creation of Units set out in the Trust Deed;
- (b) be accompanied by such certifications and legal opinions as the Trustee and the Manager may require;
- (c) the Eligible Investor shall pay the Subscription Amount. Such Subscription Amount shall be paid in cleared funds in an account designated by the Manager acting on behalf of the Fund; and
- (d) the Eligible Investor shall pay to the Manager the handling fee for the Creation Application, as more particularly described in the section "Creation of Units by an Eligible Investor" above.

Under normal circumstances, the Manager shall acquire the relevant Securities for the Creation Application. The Manager however reserves the discretion to constitute the Basket in part, and keep in cash the balance of the Subscription Amount, taking into account the then prevailing market conditions. Notwithstanding the above, the Manager reserves the absolute right to reject a Creation Application from an Eligible Investor though the Manager's rejection of a Creation Application by an Eligible Investor shall not affect the Eligible Investor's right to make a Creation Application through a Participating Dealer.

The Manager and/or any person appointed by the Manager shall have the exclusive right to instruct the Trustee to create for the account of the Sub-Fund the Units in Application Unit size in exchange for the transfer by the relevant Eligible Investor to or for the account of the Trustee the Subscription Amount and, where applicable, the handling fee.

The Issue Price of a Unit of any class in the Sub-Fund shall be the Net Asset Value per Unit of the relevant class as at the relevant Dealing Day rounded to the nearest fourth (4<sup>th</sup>) decimal place. 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 Unit shall not be added to the Issue Price of such Unit.

Units of the Sub-Fund shall be issued at the Issue Price.

Units are denominated in the Base Currency (unless otherwise determined by the Manager) and no fractions of a Unit shall be created or issued by the Trustee. Once Units are created, the Manager shall instruct the Trustee to issue the Units to the relevant Eligible Investor.

Where a Creation Application by an Eligible Investor is received or deemed to be received and accepted before the Dealing Deadline on a Dealing Day, creation and issue of Units pursuant to that Creation Application shall be effected on that Dealing Day, but:

- (a) for valuation purposes only, Units shall be deemed to be created and issued after the Valuation Point on that Dealing Day; and
- (b) the Register shall be updated on the Settlement Day or (if the settlement period is extended) the Dealing Day immediately following the Settlement Day provided that the Trustee shall be entitled to refuse to enter (or allow to be entered) Units in the Register if at any time the Trustee is of the opinion that the issue of Units does not comply with the provisions of the Trust Deed.

Where a Creation Application by an Eligible Investor is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that Creation Application shall be carried forward and deemed to be received at the opening of business on the next following Dealing Day, which shall be the Dealing Day for the purposes of that Creation Application.

### ***Rejection of Creation of Units***

The Manager reserves the absolute right to reject a Creation Application and the relevant Participating Dealer reserves the absolute right to reject a request from any third party investor to submit a Creation Application provided that the Manager or the relevant Participating Dealer (as the case may be) must act reasonably and in good faith and will take into account the interests of all Unitholders to ensure that the interests of all Unitholders will not be materially adversely affected. The Manager reserves the absolute right to reject a Creation Application from an Eligible Investor though the Manager's rejection of a Creation Application by an Eligible Investor shall not affect the Eligible Investor's right to make a Creation Application through a Participating Dealer.

### ***Certificates***

No certificates will be issued in respect of the Units of the Sub-Fund. All Units of the Sub-Fund will be registered in the name of the HKSCC Nominees Limited by the Registrar on the Register of Unitholders of the Sub-Fund, which is the evidence of ownership of Units.

Beneficial interest of retail investors in the Units of the Sub-Fund will be established through an account with a participant in CCASS.

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

In relation to Creation Application by a Participating Dealer

The Trustee shall cancel Units created and issued in respect of a Creation Application by a Participating Dealer under the following circumstances:

- (a) if the title to the AXP (or, if there are more than one AXP, any of them) (and/or cash payment, as the case may be) deposited for exchange of Units has not been fully vested upon trust in the Trustee or to the Trustee's satisfaction, or evidence of title and instruments of transfer satisfactory to the Trustee have not been produced to or to the order of the Trustee by or on the relevant Settlement Day; or
- (b) the full amount of the Cash Component (if applicable) and any duties, fees and charges payable in respect of the Creation Application have not been received in cleared funds by or on behalf of the Trustee by such time on the Settlement Day as prescribed in the relevant Operating Guidelines in respect of a Creation Application by a Participating Dealer,

provided that the Manager may in its discretion, with the approval of the Trustee, extend the settlement period on such terms and conditions as the Manager may determine.

Upon cancellation of any Units created pursuant to a Creation Application as mentioned above or if a Participating Dealer withdraws a Creation Application other than in the circumstances contemplated in the Trust Deed, such Units shall be deemed for all purposes never to have been created and the relevant Participating Dealer shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:

- (a) any AXP(s) deposited for exchange (or equivalent Securities of the same type) fully vested in the Trustee and any cash received by or on behalf of the Trustee in respect of such cancelled Units shall be redelivered to the relevant Participating Dealer;
- (b) the Manager shall be entitled to charge the relevant Participating Dealer for the account and benefit of the Trustee an Application Cancellation Fee;
- (c) the Manager may at its absolute discretion require the relevant Participating Dealer to pay to the Trustee for the account of the Sub-Fund in respect of each cancelled Unit Cancellation Compensation, being the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Price which would have applied in relation to each such Unit if a Participating Dealer had, on the date on which such Units are cancelled, made a Redemption Application;
- (d) the Trustee shall for its own benefit be entitled to the Transaction Fee payable in respect of the Creation Application; and
- (e) no previous valuations of the Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

## In relation to Creation Applications by Eligible Investors

A Creation Application by an Eligible Investor, once accepted by the Manager, cannot be cancelled by the Eligible Investors.

However, the Trustee shall cancel Units of the Sub-Fund created and issued in respect of a Creation Application by an Eligible Investor if the full amount of the Subscription Amount and the handling fee payable in respect of the Creation Application have not been received in cleared funds by or on behalf of the Trustee by such time on the Settlement Day, provided that the Manager may in its discretion, with the approval of the Trustee, extend the settlement period on such terms and conditions as the Manager may determine.

Upon cancellation of any Units created pursuant to a Creation Application as mentioned above, such Units shall be deemed for all purposes never to have been created and the Eligible Investor shall have no right or claim against the Manager or the Trustee in respect of such cancellation provided that:

- (a) the Manager shall liquidate the Securities acquired in respect of the Creation Application on behalf of the Eligible Investor and after deduction of all applicable transactional costs, duties and expenses, deposit the realized proceeds in cash to an account nominated by the Eligible Investor, together with redelivery of any cash received by or on behalf of the Trustee in respect of such cancelled Units not applied to acquire the relevant Securities;
- (b) the Manager shall be entitled to charge the Eligible Investor for the account and benefit of the Trustee an Application Cancellation Fee;
- (c) the Manager shall be entitled to charge the Eligible Investor for the account and benefit of the Trustee the Transaction Fee payable in respect of the Creation Application;
- (d) the Manager may at its absolute discretion require the Eligible Investor to pay to the Trustee for the account of the Sub-Fund in respect of each cancelled Unit a Cancellation Compensation, being the amount (if any) by which the Issue Price of each such Unit exceeds the Redemption Price which would have applied in relation to each such Unit if an Eligible Investor had, on the date on which such Units are cancelled, made a Redemption Application; and
- (e) no previous valuations of the Sub-Fund shall be re-opened or invalidated as a result of the cancellation of such Units.

The Eligible Investor shall bear all market risks of liquidating the Securities acquired in respect of its Creation Application. For the avoidance of doubt, the Manager may liquidate the relevant Securities at any time upon cancellation of the Units created pursuant to a Creation Application by an Eligible Investor. The Manager shall not be responsible for realizing the A Shares at the best available price.

## ***Redemption of Units***

### Redemption by Participating Dealers



Unless otherwise determined by the Manager and the Trustee, a Redemption Application shall only be made by a Participating Dealer, for its own account or for other investors (including the Eligible Investors) in accordance with the terms of the Trust Deed and the relevant Participation Agreement on a Dealing Day in respect of Units constituting an Application Unit size or whole multiples thereof. The dealing period on each Dealing Day commences at 12:00 noon and ends at the Dealing Deadline at 3:00 p.m., as may be revised by the Manager from time to time. A Redemption Application once given cannot be revoked or withdrawn without the consent of the Manager (which consent shall not be unreasonably withheld).

A Redemption Application by a Participating Dealer must comply with the requirements in respect of redemption of Units set out in the Trust Deed and the relevant Participation Agreement and be accompanied by such certifications and legal opinions as the Trustee and the Manager may require in order to be effective. Pursuant to a valid Redemption Application accepted by the Manager, the Manager shall instruct the Trustee to redeem and cancel the relevant Units on the Settlement Day in accordance with the relevant Operating Guidelines and to transfer to the relevant Participating Dealer:

- (a) the relevant AXP(s) (as the Manager considers appropriate) in respect of such Units, or, cash (where the Sub-Fund does not hold sufficient AXP(s)), such cash being derived from liquidating the requisite A Shares, in which case, the Participating Dealer (or the investor redeeming through the Participating Dealer) may be subject to settlement risks same as an Eligible Investor (please refer to "Redemption by an Eligible Investor" below and the risk factor (ob) under the section "Risk Factors and Risk Management Policies" for details), plus,
- (b) where the Cash Component is a positive value, a cash payment equivalent to the amount of the Cash Component. If the Sub-Fund has insufficient cash to pay any Cash Component payable by the Sub-Fund, the Manager may instruct the Trustee to sell the Deposited Property of the Sub-Fund, or to borrow moneys, to provide the cash required. If the Cash Component is a negative value, the relevant Participating Dealer shall be required to make a cash payment equivalent to the amount of the Cash Component (expressed as a positive figure) to or to the order of the Trustee.

#### Redemption by an Eligible Investor

An Eligible Investor, subject to the terms and conditions as specified in the relevant application forms, the other requirements set out below and any applicable regulations and restrictions relating to QFII or the Shanghai-Hong Kong Stock Connect (as the case may be), may apply to the Manager (in its capacity as dealer for the Eligible Investors) to redeem Units.

Unless otherwise agreed by the Manager, a Redemption Application (in Application Unit sizes) by an Eligible Investor must comply with the requirements in respect of redemption of Units set out in the Trust Deed and the appropriate application forms, and be accompanied by such certificates and legal opinions as the Trustee and the Manager may require in order to be effective.

Pursuant to a valid Redemption Application by an Eligible Investor accepted by the Manager, the Manager shall instruct the Trustee to redeem and cancel the relevant Units on the Settlement Day. Where the Sub-Fund has insufficient cash to pay any redemption proceeds

payable by the Sub-Fund, the Manager may instruct the Trustee to sell the Deposited Property of the Sub-Fund, or to borrow moneys, to provide the cash required.

In addition, the Manager shall be entitled in its absolute discretion to charge to each relevant Eligible Investor a handling fee of up to 6% of the redemption proceeds. Such handling fee represents the payment of the Duties and Charges for disposing of the relevant Securities, compensation to the Sub-Fund for any potential market risks and the servicing fee which is payable to the Manager (in its capacity as dealer for the Eligible Investors) for its use and benefit.

The Manager may increase the maximum specified rate of the handling fee by no less than one (1) month's written notice to the Unitholders.

The handling fee payable by the Eligible Investor may be set off and deducted from the redemption proceeds payable to the Eligible Investor.

#### Redemption - General

The Redemption Price of Units redeemed shall be the Net Asset Value per Unit of the relevant class rounded to the nearest fourth (4<sup>th</sup>) decimal place. Unless specifically requested to do so by the Participating Dealer or the Eligible Investor (as the case may be), not later than one (1) month after the relevant Dealing Day, the Trustee shall be under no obligation to check the calculation of the Redemption Price in connection with any redemption of Units. Should the Manager be in any doubt as to the Redemption Price in connection with any redemption of Units, the Manager will request an independent third party to check the Redemption Price.

Under normal circumstances, the maximum interval between (i) the receipt of a properly documented Redemption Application and (ii) payment of redemption proceeds to the relevant investor may not exceed one (1) calendar month, unless otherwise permitted under the UTMF Code. However, where a Redemption Application is submitted by an Eligible Investor or where there is insufficient AXP for a Redemption Application by a Participating Dealer, and the Manager needs to dispose of the relevant A Shares to provide for the redemption proceeds for the Redemption Application:

- (a) If no repatriation of funds from the PRC is required, redemption proceeds will normally be paid within five (5) Business Days after the relevant Dealing Day, and in any event not more than one (1) calendar month of the relevant Dealing Day (unless longer time is required in specific circumstances if there are capital repatriation constraints) or, if later, after duly completed redemption documentation has been received by the Manager, unless such requirement is waived by the Manager.
- (b) In cases where SAFE's approval is required for repatriation of funds to satisfy payment of redemption money and rendering the payment of the same within the time frame mentioned in (a) above not practicable, the amount due on redemption will be paid to Unitholders, as soon as practicable, and, in any event, within five (5) Business Days after completion of the relevant repatriation process. The extended time frame (beyond one (1) month) for payment is needed as the actual time required to obtain SAFE's approval for, and the completion of, the relevant repatriation process, is beyond the control of the Manager.

Under exceptional circumstances, the Manager reserves the right to reject a Redemption Application from a Participating Dealer or an Eligible Investor (as the case may be) and the Participating Dealer reserves the right to reject a request from any third party to submit a Redemption Application provided that the Manager or the Participating Dealer (as the case may be) must act reasonably and in good faith and will take into account the interests of all Unitholders to ensure that the interests of all Unitholders will not be materially adversely affected, and provided further that the Manager's rejection of a Redemption Application by an Eligible Investor shall not affect the Eligible Investor's right to make a Redemption Application through a Participating Dealer.

With a view to protecting the interests of Unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of Units of the Sub-Fund redeemed on any Dealing Day (whether by sale to the Manager or by cancellation by the Trustee) to twenty per cent (20%) of the latest available Net Asset Value of the Sub-Fund. In this event, the limitation will apply pro rata so that all Unitholders wishing to redeem Units in the Sub-Fund on that Dealing Day will redeem the same proportion by value of such Units, and Units not redeemed (but which would otherwise have been redeemed) will be carried forward and given priority for redemption, subject to the same limitation, on the next Dealing Day. If requests for redemption are so carried forward, the Manager will inform the Unitholders concerned.

Where a Redemption Application is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that Redemption Application shall be carried forward and deemed to be received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Redemption Application. For valuation purposes, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the Redemption Application is deemed to be received.

In respect of each Redemption Application, the Manager shall be entitled to, for the account and benefit of the Trustee, charge the Transaction Fee which shall be paid by the relevant Participating Dealer or the Eligible Investor (as the case may be) and may be set off and deducted against any Cash Component due to the relevant Participating Dealer or any redemption proceeds due to the relevant Eligible Investor (as the case may be) in respect of such Redemption Application. The Manager shall have the right to revise the amount of the Transaction Fee it charged provided that the level of Transaction Fee charged to all Participating Dealers and Eligible Investors is the same.

The Manager shall be entitled to deduct from and set off against any Cash Component payable to a Participating Dealer or any redemption proceeds payable to an Eligible Investor (as the case may be) on the redemption of Units a sum (if any) which represents the appropriate provision for duties and charges, the Transaction Fee, the handling fee (with respect to Eligible Investors only) and any other fees payable by the Participating Dealer or the Eligible Investor (as the case may be). If the Cash Component (in the case of a Participating Dealer) or redemption proceed (in the case of an Eligible Investor) is insufficient to pay such duties and charges, the Transaction Fee, the handling fee (with respect to Eligible Investors only) and any other fees payable on such redemption, the Participating Dealer or Eligible Investor (as the case may be) shall promptly pay the shortfall to or to the order of the Trustee, and until such shortfall and any Cash Component, Transaction Fee, the handling fee (with respect to Eligible Investors only) and any fees and charges payable by the Participating Dealer or the Eligible Investor (as the case may be) are paid in full in cleared funds to or to the order of the Trustee, the Trustee shall not be obliged to deliver (and shall have a general lien over) (in respect of a

Redemption Application by a Participating Dealer) the relevant AXP(s) to be transferred or (in respect of a Redemption Application by an Eligible Investor or where there is insufficient AXP for a Redemption Application by a Participating Dealer) the relevant redemption proceeds.

Upon redemption of Units pursuant to a valid Redemption Application,

- (a) the funds of the Sub-Fund shall be deemed to be reduced by the cancellation of such Units and, for valuation purposes, such Units shall be deemed to have been redeemed and cancelled after the Valuation Point as at the Dealing Day on which the Redemption Application is or is deemed to be received; and
- (b) the name of the Unitholder of such Units shall be removed from the Register on the relevant Settlement Day.

In respect of a Redemption Application, unless the requisite documents in respect of the relevant Units have been delivered to the Manager by such time on the Settlement Day as prescribed in the Operating Guidelines or (in respect of a Redemption Application by an Eligible Investor) as prescribed in the Trust Deed or as otherwise notified by the Manager to the Eligible Investors in writing, the Redemption Application shall be deemed never to have been made except that the Transaction Fee in respect of such Redemption Application shall remain due and payable and once paid, shall be retained by and for the benefit of the Trustee, and in such circumstances:

- (a) the Manager shall be entitled to charge the Participating Dealer or the Eligible Investor (as the case may be) for the account and benefit of the Trustee an Application Cancellation Fee;
- (b) the Manager may at its absolute discretion require the Participating Dealer or the Eligible Investor (as the case may be) to pay to the Trustee, for the account of the Sub-Fund, Cancellation Compensation in respect of each Unit, being the amount (if any) by which the Redemption Price of each Unit is less than the Issue Price which would have applied in relation to each Unit if a Participating Dealer or an Eligible Investor (as the case may be) had, on the final day permitted for delivery of the requisite documents in respect of the Units which are the subject of the Redemption Application, made a Creation Application; and
- (c) no previous valuations of the Sub-Fund shall be re-opened or invalidated as a result of an unsuccessful Redemption Application,

provided that the Manager, with the approval of the Trustee, may at its discretion extend the settlement period on such terms and conditions as the Manager may determine.

Manager's Discretion to Pay Cash for Redemption of Units by a Participating Dealer (in respect of Units acquired via in-kind Creation Application)

In respect of a Redemption Application by a Participating Dealer, the Manager shall have the right to determine in its absolute discretion that the Trustee shall pay cash out of the Sub-Fund equal to the market value at the Valuation Point for the relevant Dealing Day of such AXPs comprising the relevant Basket (or part thereof) in lieu of delivering the relevant AXP(s) to the relevant Participating Dealer if the Manager determines in its absolute discretion that the

AXP(s) are unlikely to be available for delivery or likely to be available in insufficient quantity for delivery upon the Redemption Application by a Participating Dealer or if it is in the interests of the Sub-Fund to do so, provided that the Manager shall be entitled in its absolute discretion to charge (for the account of the Sub-Fund) to the Participating Dealer redeeming any Units for which cash is paid in lieu of delivering the AXP(s) an additional sum which represents the appropriate provision for duties and charges. Such duties and charges payable by the Participating Dealer may be set off and deducted from the cash payable in lieu. In addition, where the Manager needs to liquidate the requisite A Shares to provide sufficient redemption proceeds in respect of a Redemption Application by a Participating Dealer, the Participating Dealer (or the investor redeeming through the Participating Dealer) may be subject to settlement risks same as an Eligible Investor (please refer to "Redemption by an Eligible Investor" above and the risk factor (ob) under the section "Risk Factors and Risk Management Policies" for details).

Notwithstanding the above, in case of a Redemption Application from an investor (including an Eligible Investor but other than the Participating Dealer) submitted through the relevant Participating Dealer, upon request by the Participating Dealer or such investor, the Manager shall pay cash out of the Sub-Fund in respect of such redemption provided that the Manager receives cash from the AXP issuer in respect of the sale of the AXP(s) in relation to the Redemption Application. The AXP issuer has confirmed that it will buy back the AXP(s) as may be requested by the Manager from time to time at the mark-to-market values in accordance with the terms of the AXP(s).

### ***Compulsory Redemptions under Certain Circumstances***

The Manager may compulsorily redeem a Unitholder's Units in the Sub-Fund (or any part thereof) upon reasonable notice as if the Unitholder had requested the redemption of such Units and close any accounts held by a Unitholder for the Unitholder's investments in the Sub-Fund if:

- (a) the Unitholder is or becomes or is holding the Units for the account of or benefit of (i) a US Person (as defined in Regulation S under the United States Securities Act of 1933 (as amended)); or (ii) a US Person for FATCA purpose; or (iii) any other Unqualified Person (as defined in the "Definitions" section on pages 10-11);
- (b) the Unitholder refuses or fails to provide in a timely manner any information or documents or other assistance as reasonably requested by the Manager and/or the Trustee for the purpose of meeting any demands, disclosure or reporting requirements as may be required under any applicable local or foreign laws and regulations issued by regulatory or governmental authorities of relevant jurisdiction, including but not limited to FATCA or any IGA entered into between the US and Hong Kong in connection with FATCA (including any Hong Kong laws and regulations implemented as part of such IGA);
- (c) the Unitholder withdraws consent to the reporting or disclosure of any information or documents relating to the Unitholder or the Unitholder's investments as may be required under any applicable local or foreign laws and regulations issued by regulatory or governmental authorities of relevant jurisdiction, including but not limited to FATCA or any IGA entered into between the US and Hong Kong in connection with FATCA (including any Hong Kong laws and regulations implemented as part of such IGA);

- (d) the continued holding of Units by the Unitholder will subject the Manager, the Trustee, the Sub-Fund and/or service providers of the Sub-Fund to any reporting or withholding requirements under any applicable local or foreign laws and regulations issued by regulatory or governmental authorities of relevant jurisdiction, including but not limited to FATCA or any IGA entered into between the US and Hong Kong in connection with FATCA (including any Hong Kong laws and regulations implemented as part of such IGA); or
- (e) it is, in the opinion of the Manager, required for the purpose of complying with any applicable local or foreign laws and regulations issued by regulatory or governmental authorities of relevant jurisdiction, including but not limited to FATCA or any IGA entered into between the US and Hong Kong in connection with FATCA (including any Hong Kong laws and regulations implemented as part of such IGA).

The Manager has a right to withhold, set-off or deduct reasonable amounts from the redemption proceeds, provided that: (i) such withholding, set-off or deduction is permitted by applicable laws and regulations; and (ii) the Manager is acting in good faith and on reasonable grounds.

The Manager will notify the Trustee and/or the other relevant service providers before any such redemption is made or any closing of account is done.

#### **DETERMINATION OF NET ASSET VALUE**

The Net Asset Value of the Sub-Fund shall be determined at the Valuation Point on each Dealing Day (or at such other time as the Manager and the Trustee determined) by valuing the assets of the Sub-Fund and deducting the liabilities of the Sub-Fund in accordance with the terms of the Trust Deed.

The Trust Deed provides, inter alia, that the value of investments in the Sub-Fund shall be determined as follows:

- (a) the value of any investment quoted, listed or normally dealt in on a market (other than an interest in a Collective Investment Scheme) shall be calculated by reference to the price which appears to the Manager to be the last closing bid price on the relevant Dealing Day or (if no last closing bid price is available) the last traded price on the relevant Dealing Day or (if no last traded price) the latest available market bid price (as at such time as shall be agreed between the Trustee and the Manager) on the market on which the investment is quoted, listed or ordinarily dealt in for such amount of such investment as the Manager may consider in the circumstances to provide a fair criterion, **PROVIDED THAT:**
  - (i) if an investment is quoted, listed or normally dealt in on more than one market, the Manager shall adopt the price or, as the case may be, middle quotation on the market which, in its opinion, provides the principal market for such investment;
  - (ii) in the case of any investment which is quoted, listed or normally dealt in on a market but in respect of which, for any reason, prices on that market may not be

available at any relevant time, the value thereof shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee;

- (iii) there shall be taken into account interest accrued on interest-bearing investments up to (and including) the date as at which the valuation is made, unless such interest is included in the quoted or listed price;

and for the purpose of the foregoing provisions the Manager or the Trustee shall be entitled to use and to rely upon electronic price feeds from such source or sources as they may from time to time think fit with regard to the pricing of the investments on any market notwithstanding that the prices so used are not the last closing bid prices and references to valuation of investments or deposits on a particular day or at a particular time may, if such a system is used, mean the valuation on the system on that day or at that time notwithstanding it may have been taken at a time or times selected by the system and be prior to that day or time, and the Manager shall use reasonable endeavours to ensure that such source or sources are, in its reasonable opinion, reliable and independent;

- (b) the value of any investment which is not quoted, listed or ordinarily dealt in on a market shall be the initial value thereof equal to the amount expended out of the Sub-Fund in the acquisition thereof (including in each case the amount of the stamp duties, commissions and other expenses incurred in the acquisition thereof and the vesting thereof in the Trustee) provided that the Manager may at any time with the approval of the Trustee and shall at such times or at such intervals as the Trustee may request, cause a revaluation to be made of any unquoted investment by a professional person approved by the Trustee as qualified to value such unquoted investment;
- (c) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager, any adjustment should be made to reflect the value thereof;
- (d) the value of each unit, share or other interest in any Collective Investment Scheme which is valued as at the same day as the Sub-Fund shall be the net asset value per unit or share in such Collective Investment Scheme as at that day or, if the Manager so determines, or if such Collective Investment Scheme is not valued as at the same day as the Sub-Fund, the value of such interest shall be the latest available net asset value per unit, share or other interest in such Collective Investment Scheme;
- (e) notwithstanding the foregoing, the Manager may, with the consent of the Trustee, adjust the value of any investment if, having regard to currency, applicable rate of interest, maturity, marketability and other considerations it deems relevant, it considers that such adjustment is required to reflect the fair value thereof. The Trustee may also carry out regular independent valuation of the investments as it deems appropriate; and
- (f) the value of any investment (whether of a Security (including AXP) or cash) otherwise than in the Base Currency shall be converted into the Base Currency at the rate (whether official or otherwise) which the Manager shall deem appropriate in the circumstances

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

For the purposes of determining the Net Asset Value, the Trustee shall value the AXP's held by the Sub-Fund according to the price determined by the calculation agent (as calculated in accordance with the terms of each AXP) which is the value of the AXP's in the AXP's' base currency by reference to the closing bid price(s) of the underlying A Share (as at the end of each Business Day) adjusted for transaction costs (such as execution fee and maintenance fee charged by the AXP issuer, the Capital Gain Tax (as defined in Appendix V) and any other transaction costs and expenses (which shall be at a reasonable level), if applicable). This figure will then be converted into Hong Kong dollars.

### **SUSPENSION OF DEALING OR DETERMINATION OF NET ASSET VALUE**

The Manager may, after giving notice to the Trustee, declare on the website maintained by the Manager for the Sub-Fund or through such other means as the Manager considers appropriate a suspension of dealing or the determination of the Net Asset Value of the Sub-Fund for the whole or any part of any period during which:

- (a) there is a closure of or the restriction or suspension of trading on any securities market on which a substantial part of the investments of the Sub-Fund is normally traded or a breakdown in any of the means normally employed by the Manager or the Trustee (as the case may be) in ascertaining the prices of investments or determining the Net Asset Value or the Issue Price or Redemption Price of a Unit;
- (b) for any other reason, the prices of investments held or contracted for by the Manager for the account of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (c) in the opinion of the Manager, it is not reasonably practicable to realize any investments held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interests of Unitholders of the Sub-Fund;
- (d) the remittance or repatriation of funds which will or may be involved in the redemption of, or in the payment for, the investments of the Sub-Fund or the subscription or redemption of any classes of Unit is delayed or cannot, in the opinion of the Manager, be carried out promptly at normal exchange rates; or
- (e) the CSI 300 is not compiled or published.

Upon declaration of the suspension by the Manager, the suspension shall take effect. During the suspension,

- (a) there shall be no dealing or determination of the Net Asset Value of the Sub-Fund;
- (b) the Manager shall have the absolute discretion to suspend an Application received prior to the suspension;



- (c) the Manager shall be under no obligation to rebalance (in case the AXP is linked to an A Share) the Deposited Property of the Sub-Fund or (in case the AXP is linked to a Basket of A Shares) the Basket of A Shares underlying each AXP held by the Sub-Fund;
- (d) no Applications shall be made by any of the Participating Dealers or by an Eligible Investor;
- (e) no Units shall be created and issued or redeemed for the account of the Sub-Fund.

The suspension shall terminate (a) when the Manager, after giving notice to the Trustee, declares the suspension at an end, or (b) in any event on the day following the first Business Day on which the condition giving rise to the suspension ceases to exist; and no other condition under which suspension shall be declared exists.

As soon as reasonably practicable after the termination of suspension, the Manager shall publish a notice of such termination on the website maintained by the Manager for the Sub-Fund or through such other means as the Manager considers appropriate.

A Participating Dealer or an Eligible Investor may at any time after a suspension has been declared and before termination of such suspension withdraw an Application submitted prior to such suspension not otherwise accepted by the Manager by notice in writing to the Manager and the Manager shall promptly notify the Trustee accordingly. If the Manager has not received any such notification of withdrawal of such Application before termination of such suspension, the Trustee shall, subject to and in accordance with the provisions of the Trust Deed, create and issue Units or redeem Units in respect of such Application and such Application shall be deemed to be received immediately following the termination of such suspension.

The Manager shall notify the SFC as soon as reasonably practicable upon any suspension of creation or redemption of Units, or the determination of the Net Asset Value of the Sub-Fund, and shall publish a notice of suspension immediately following such suspension and at least once a month during the suspension on the website maintained by the Manager for the Sub-Fund and in one leading Hong Kong English language and one Chinese language daily newspaper or through such other means as the SFC considers appropriate.

### **SUSPENSION OF DEALING IN UNITS ON THE SEHK**

Dealing in Units on the SEHK, or trading on the SEHK generally, may at any time be suspended by the SEHK subject to any conditions imposed by the SEHK if the SEHK considers it necessary for the protection of investors or for the maintenance of an orderly market or in such other circumstances as the SEHK may consider appropriate.

The Manager shall publish any announcement on suspension of dealing in Units on the SEHK in accordance with the rules of the SEHK.

## **DISTRIBUTION POLICY**

In respect of the Sub-Fund, the Manager may in its discretion make distributions to Unitholders in each financial year as the Manager considers appropriate, having regard to the net income of the Sub-Fund. Distributions are not guaranteed and the Manager may in its sole and absolute discretion decide not to make any distributions in a financial year.

## **CHARGES AND EXPENSES**

For details of the amount of fees and charges currently applicable to the Sub-Fund, please refer to Appendix V.

### ***Management Fee and Servicing Fee***

The Manager is entitled to receive a management fee for the Sub-Fund calculated as a percentage of the net asset value of the relevant class of Units of the Sub-Fund. The management fee will be deducted from the assets of the Sub-Fund. The maximum management fee the Manager may levy shall be 2.0% per annum of the Net Asset Value of the Sub-Fund.

In addition, the Manager is entitled to receive a servicing fee for the Sub-Fund calculated as a percentage of the net asset value of the Sub-Fund. The servicing fee will be deducted from the assets of the Sub-Fund. The maximum servicing fee the Manager may levy is 1% per annum of the net asset value of the Sub-Fund.

Both the management fee and servicing fee are calculated and accrued on each Dealing Day and are paid monthly in arrears.

The Manager may at any time decrease the rate of management fee or servicing fee in respect of any class of Units of the Sub-Fund. The Manager may also increase the rate of management fee or servicing fee payable in respect of any class of Units of the Sub-Fund (up to the maximum rate as set out above) on giving not less than three (3) months' notice (or such shorter period as the SFC may approve) of such increase to affected Unitholders and the Trustee.

For the avoidance of doubt, any reference to "servicing fee" in this section "Management Fee and Servicing Fee" does not mean or include the entitlement of the Manager (in its capacity as dealer for the Eligible Investors) to such part of the handling fee as the Manager may in its absolute discretion determine (with respect to Eligible Investors' Creation or Redemption Applications).

### ***Trustee Fee***

The Trustee is entitled to receive a trustee fee in respect of the Sub-Fund calculated as a percentage of the net asset value of the relevant class of Units of the Sub-Fund. The Manager shall pay the trustee fee chargeable by the Trustee out of the management fees received by it.

In addition, the Trustee is entitled to (i) transaction and processing fees in accordance with its normal scales as agreed with the Manager; (ii) subject to the agreement between the Trustee

and the Manager, all or any part of Application Cancellation Fee and Transaction Fee charged to a Participating Dealer or an Eligible Investor; (iii) inception fee of US\$10,000 for the establishment of the Fund and a further inception fee of US\$2,500 for the Sub-Fund (such inception fees represent the fees of the Trustee and are not part of the establishment costs of the Fund or the Sub-Fund); and (iv) such other fees as may be permitted under the Trust Deed.

### ***Other Charges and Expenses***

The Sub-Fund shall bear the costs set out in the Trust Deed which are directly attributable to it. Where such costs are attributable to the Sub-Fund and other sub-funds of the Fund, the Sub-Fund will bear such costs in proportion to its respective net asset value or in such other manner as the Manager shall consider appropriate. Such costs include but are not limited to the costs incurred in the establishment, structuring, management and administration of the Fund and its sub-funds, the costs of investing and realizing the investments of the sub-funds, the charges, fees, expenses, taxes or other duties in obtaining collateral, or implementing other measures or arrangements in mitigating the counterparty risk or other exposures of the sub-funds, the fees and expenses of Registrar, Service Agent, custodians and sub-custodians of the assets of the Fund, the fees and expenses of the auditors, valuation costs, legal fees, the costs incurred in connection with any listing or regulatory approval, the costs of holding meetings of Unitholders and the costs incurred in the preparation and printing of any prospectus, any audited accounts or interim reports which are sent to the Unitholders.

In addition, the Sub-Fund shall bear a due proportion of the costs and expenses incurred by the Manager and the Trustee in establishing the Fund. These costs and expenses are estimated to be approximately HK\$500,000 and may be allocated to the Sub-Fund and other sub-funds of the Fund on equal basis and amortized over the first accounting period of the Fund after consultation with the auditors of the Fund. In the event that any sub-fund is terminated prior to the expiry of the amortization period, the balance of unamortized expenses will be apportioned amongst the other remaining sub-funds on equal basis unless the Trustee and the Manager agree otherwise after consultation with the auditors of the Fund. The first accounting period of the Sub-Fund is from the close of the Initial Offer Period to 31 December 2008. Subsequent accounting periods of the Sub-Fund are from 1 January to 31 December of each year.

In addition to the above, Unitholders may be required to pay any requisite governmental tax, stamp duty, registration fee, custody and nominee charges as may be required in the purchase or sale of the Units in the Sub-Fund. Fees payable by retail investors dealing in the Units on the SEHK are set out under the “Fees Payable by Participating Dealers, Eligible Investors and Retail Investors” section in Appendix V.

### **POTENTIAL CONFLICT OF INTEREST, TRANSACTIONS WITH CONNECTED PERSONS AND SOFT COMMISSIONS**

The Manager and the Trustee and Custodian or their Connected Persons may, from time to time, act as manager, investment adviser, trustee or as custodian or in such other capacity in connection with or be otherwise involved in or with any other collective investment schemes separate and distinct from the Fund and the Sub-Fund, including those that have similar investment objectives to those of the Sub-Fund, or contract with or enter into financial, banking or other transaction with one another or with any investor of the Sub-Fund, or any company or body any of whose shares or securities form part of the Sub-Fund or may be

interested in any such contract or transaction and shall not be liable to account to the Fund or the Sub-Fund or any investor of the Fund or the Sub-Fund for any profit or benefit made or derived thereby or in connection therewith. It is, therefore, possible that any of the Manager and the Trustee and Custodian or their Connected Persons may, in the course of business, have potential conflicts of interest with the Sub-Fund.

Each of the Manager and the Trustee and Custodian or their Connected Persons will, at all times, have regard in such event to its obligations to the Sub-Fund and the investors and will endeavour to ensure that such conflicts are resolved fairly.

The Manager has an established policy in relation to the identification and monitoring of potential conflicts of interest scenarios. There are functional separations of different areas of operations to control the flow of information that may be confidential and/or price sensitive. Computer and information system with appropriate access controls have been put in place by the Manager. Key duties and functions are segregated among different departments. The Manager has adopted trading policies which are designed to ensure the fair allocation of investment opportunities among funds, investment vehicles or accounts that the Manager manages or advises. A designated risk management and portfolio control team and compliance team of the Manager will monitor the implementation of such trading policies and dealing procedures with overall monitoring by the senior management of the Manager.

The Trustee and Custodian will keep and maintain proper books of accounts, records and documents for each fund or scheme under their trusteeship and segregate the assets of different funds or schemes. The Trustee and Custodian will keep data and information in relation to the portfolio of each fund/scheme confidential.

The Manager, the Trustee and Custodian or their Connected Persons shall act in a reasonable and prudent manner when handling any potential conflict of interest situation and take into account the interest of Unitholders and clients.

All transactions carried out by or on behalf of the Sub-Fund will be at arm's length in compliance with applicable laws and regulations. Any transactions between the Sub-Fund and the Manager or any of its Connected Persons as principal may only be made with the prior written consent of the Trustee/Custodian. All such transactions shall be disclosed in the Sub-Fund's annual report.

The brokerage and other agency transactions for the account of the Sub-Fund may be executed through brokers or dealers connected to the Manager or Connected Persons of the Manager. However, for so long as the Sub-Fund is authorized by the SFC, the Manager shall ensure that it complies with the following requirements when transacting with brokers or dealers connected to the Manager or Connected Persons of the Manager, save to the extent permitted under the UTMF Code or any waiver obtained from the SFC:

- (a) such transactions are on arm's length terms;
- (b) the Manager has used due care in the selection of brokers or dealers and ensure that they are suitably qualified in the circumstances;
- (c) the transaction execution is consistent with the best execution standards;
- (d) the fee or commission paid to any such broker or dealer in respect of a transaction shall not be greater than that which is payable at the prevailing market rate for a transaction of that size and nature;

- (e) the Manager shall monitor such transactions to ensure compliance with its obligations; and
- (f) the nature of such transactions and the total commissions and other quantifiable benefits received by such broker or dealer will be disclosed in the Sub-Fund's annual report.

Neither the Manager nor any of its Connected Persons may retain cash or other rebates from a broker or dealer in consideration of directing transactions to them.

The Manager and any of its Connected Persons may effect transactions by or through the agency of another person with whom the Manager or any of its Connected Persons have an arrangement under which that party will from time to time provide to or procure for the Manager or any of its Connected Persons, goods, services or other benefits, such as research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publication. The Manager shall procure that no such contractual arrangements are entered into unless:

- (a) the nature of which is such that their provision are of demonstrable benefit to the Sub-Fund;
- (b) the transaction execution is consistent with best execution standards; and
- (c) brokerage rates are not in excess of customary institutional full-service brokerage rates.

No direct payment may be made to the Manager or any of its Connected Persons who undertake to place business with that party.

For the avoidance of doubt, such goods and services do not include travel accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments. Details of soft commission arrangements will be reported regularly to the Trustee and will be disclosed in the Sub-Fund's annual report.

## **TAXATION**

*The following summary regarding taxation are based on advice received by the Sub-Fund regarding the law and practice in force in Hong Kong at the date of this Prospectus. It is for information purposes only and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to an investor. This summary does not constitute tax advice and does not purport to deal with the tax consequences applicable to every investor. Investors should note that the relevant tax laws, rules and practice may change (and may change on a retrospective basis), and therefore there is no guarantee that the following summary will continue to be applicable after the date of this Prospectus. Investors should seek independent professional tax advice if necessary.*

## ***Hong Kong***

### ***The Sub-Fund***

The Sub-Fund is not expected to be subject to Hong Kong profits tax in respect of any of its authorized activities.

Pursuant to a remission order issued by the Secretary for Treasury on 20 October 1999, Hong Kong stamp duty payable on the transfer of Hong Kong stocks by an investor to the Sub-Fund in respect of allotment of Units, or by the Sub-Fund to an investor upon redemption of Units, would be remitted or refunded. Apart from the above, the sale and purchase of Hong Kong stocks by the Sub-Fund will be subject to stamp duty in Hong Kong at the current rate of 0.2 per cent (0.2%) of the price of Hong Kong stocks being sold and purchased. The Sub-Fund will normally be liable for one half of such Hong Kong stamp duty. However, it is not the current intention of the Manager that the Sub-Fund will buy or sell Hong Kong stocks.

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

### ***Unitholders***

No tax will be payable by Unitholders in Hong Kong in respect of income distributions of the Sub-Fund or in respect of any capital gains arising on a sale, redemption or other disposal of Units, except that Hong Kong profits tax may arise where such transactions form part of a trade, profession or business carried on by the Unitholder in Hong Kong.

Effective from 13 February 2015, a transfer, sale or purchase of Units is waived from Hong Kong stamp duty.

### ***General***

Investors should consult their professional financial advisers on the consequences to them of acquiring, holding, realizing, transferring or selling Units under the relevant laws of the jurisdictions to which they are subject, including the tax consequences, stamping and denoting requirements and any exchange control requirements. These consequences, including the availability of, and the value of, tax relief to investors will vary with the law and practice of the investors' country of citizenship, residence, domicile or incorporation and their personal circumstances.

## **GENERAL INFORMATION**

### ***Accounts and Reports***

The Sub-Fund's year end is 31 December in each year commencing 31 December 2008. Audited accounts are sent to Unitholders by the Trustee within four months of the end of each financial year. Commencing 2009, half-yearly unaudited interim reports up to the last Dealing Day in June in each year will be issued to Unitholders within two months of the end of the period which they cover. Such reports will contain a statement of the value of the net assets of the Sub-Fund and the investments comprising its portfolio and will be published in both English and Chinese.

### ***Publication of Information Relating to the Sub-Fund***

The Manager shall also publish the following information in both English and Chinese languages in respect of the Sub-Fund on its website ([www.boci-pru.com.hk/English/etf/intro.aspx](http://www.boci-pru.com.hk/English/etf/intro.aspx) (for English) or [www.boci-pru.com.hk/Chinese/etf/intro.aspx](http://www.boci-pru.com.hk/Chinese/etf/intro.aspx) (for Chinese)), including:

- this Prospectus (as amended and supplemented from time to time);
- the latest available Product Key Facts Statement;
- the latest annual and semi-annual financial reports of the Sub-Fund;
- any public announcements made by the Sub-Fund, including information in relation to the CSI 300, notices of the suspension of the calculation of Net Asset Value, changes in fees and charges and the suspension and resumption of trading of Units;
- monthly holdings and the last closing Net Asset Value and Net Asset Value per Unit;
- the name of each AXP issuer and Participating Dealer;
- the current gross and net counterparty exposure of the Sub-Fund to each AXP issuer, to be updated at the close of business of every Dealing Day;
- the Sub-Fund's A Shares' holdings, to be updated at the close of business of every Dealing Day;
- the composition of the collateral, to be updated on a weekly basis and the Collateral Management Policy;
- the past performance information of the Sub-Fund; and
- the tracking difference and tracking error information of the Sub-Fund.

In addition, China Securities Index Co., Ltd. shall publish the CSI 300 on its website ([www.csindex.com.cn](http://www.csindex.com.cn)).

The Manager will use all reasonable efforts to publish the near real-time estimated Net Asset Value of the Sub-Fund during normal trading hours of the SEHK on each Dealing Day on its website [www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese), as well as the last closing Net Asset Value of the Sub-Fund. Although every effort is made to ensure information provided are accurate at the time of publication the Manager shall not accept any responsibility for any error or delay in calculation or in the publication or non-publication of prices which are beyond its control.

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

#### **(a) The Trustee**

- (i) Subject to the prior written approval of the SFC, the Trustee may retire from office by giving not less than ninety (90) days' written notice (or such shorter period of notice as the SFC may approve) to the Unitholders PROVIDED THAT adequate arrangements have been made for another trustee approved by the SFC to assume responsibility for the administration of the Sub-Fund and for the Trustee's interest in the Sub-Fund to be transferred to that trustee.

- (ii) Subject to the prior written approval of the SFC, the Manager may by giving not less than ninety (90) days' prior notice (or such shorter period of notice as the SFC may approve) in writing to the Trustee remove the Trustee from the trusteeship of the Sub-Fund and appoint any other company qualified to act as trustee under the proper law of the Sub-Fund in its place by deed entered into by the Manager and the new trustee. The removal of the Trustee and the appointment of its successor shall take effect simultaneously.
- (b) The Manager
- (i) The Manager must be subject to removal by three (3) months' notice in writing from the Trustee in either of the following events:
    - for good and sufficient reason, the Trustee states in writing that a change in the Manager is desirable in the interest of the Unitholders; or
    - Unitholders of the Fund representing at least fifty per cent (50%) in value of the Units outstanding (excluding those held or deemed to be held by the Manager or the Participating Dealer) delivered to the Trustee a written request to dismiss the Manager as the manager of the Fund.
  - (ii) The Manager must also be subject to removal forthwith upon written notice from the Trustee if the Manager commences liquidation or has gone into receivership or has entered into any scheme of arrangement or compromise with its creditors.
  - (iii) If the SFC ceases to accept the Manager as the investment manager of the Fund, the Manager's appointment shall be terminated as at the date on which the SFC notified the Fund of the effective date on which it ceases to accept the Manager as the investment manager of the Fund.
  - (iv) The Manager may retire in accordance with the terms and conditions of the agreement entered into between the Trustee and the Manager for the investment of the Sub-Fund PROVIDED THAT a new Manager should be appointed as soon as possible with the approval of the SFC.

### ***Termination of the Fund or the Sub-Fund***

1. The Sub-Fund shall terminate upon the termination of the Fund. The Fund shall continue for a period of eighty (80) years from the date of the Trust Deed or until it is terminated in one of the ways set out below.
2. The Fund may be terminated by the Trustee by notice in writing as hereinafter provided if:
  - (a) the Manager shall go into liquidation or if a receiver is appointed over any of their assets and not discharged within sixty (60) days;
  - (b) in the opinion of the Trustee, the Manager shall be incapable of performing or shall in fact fail to perform their duties satisfactorily or shall do any other thing



which in the opinion of the Trustee is calculated to bring the Fund into disrepute or to be harmful to the interests of the Unitholders;

- (c) the Fund shall cease to be authorized pursuant to the Securities and Futures Ordinance or if any law shall be passed which renders it illegal or in the opinion of the Trustee impracticable or inadvisable to continue the Fund; or
  - (d) the Manager shall have ceased to be the Manager and, within a period of thirty (30) days thereafter, no other qualified corporation shall have been appointed by the Trustee as a successor Manager.
3. The Fund and/or the Sub-Fund and/or any classes of Units relating to the Sub-Fund (as the case may be) may be terminated by the Manager in its absolute discretion by notice in writing as hereinafter if:
- (a) at any time one year after the establishment thereof, in relation to the Fund, the aggregate Net Asset Value of all Units outstanding hereunder shall be less than HK\$100,000,000 or, in relation to the Sub-Fund, the aggregate Net Asset Value of the Units of the relevant classes outstanding hereunder shall be less than HK\$100,000,000;
  - (b) the Sub-Fund shall cease to be authorized pursuant to the Securities and Futures Ordinance;
  - (c) any law shall be passed which renders it illegal or in the opinion of the Manager impracticable or inadvisable to continue the Fund and/or the Sub-Fund;
  - (d) the CSI 300 is no longer available for benchmarking, unless the Manager and the Trustee agree that it is possible, feasible, practicable and in the best interests of the Unitholders to substitute another index for the CSI 300;
  - (e) the Units of the Sub-Fund are no longer listed on the SEHK or other securities market;
  - (f) the exercise period (if any) of the AXP is not extended and the AXP has to be exercised and settled. In such circumstances, unless the Manager and the Trustee agree that another method of holding or replicating the holding of the A Share constituting the CSI 300 is possible, feasible, practicable and in the best interests of the Unitholders, the Units then in issue shall be compulsorily redeemed and the Sub-Fund shall be terminated in accordance with the provisions of the Trust Deed. The Manager shall, in such event, notify the SFC in advance and agree with the SFC appropriate methods of notification of the relevant Unitholders prior to such redemption and termination;
  - (g) an insolvency event of an AXP issuer occurs, where “insolvency events” include a creditor taking possession of all or any part of the business or assets of the AXP issuer, a petition being presented or an order made or a resolution passed for the winding-up, insolvency, administration, reorganization, dissolution or bankruptcy of the AXP issuer, or a liquidator or receiver appointed, or any other events having an effect analogous to the above;

- (h) the Fund and/or the Sub-Fund ceases to have any Participating Dealer; or
- (i) the Trustee have notified the Manager of its desire to retire as Trustee and the Manager shall be unable to find a qualified corporation to act as trustee in place of the Trustee in accordance with the terms of the Trust Deed.

Notice will be given to Unitholders if the Fund or the Sub-Fund is terminated under the above circumstances. Such notice will be submitted to the SFC for prior approval.

### ***Trust Deed***

The Fund was established under Hong Kong law by a trust deed dated 11 July 2007 (as may be amended, modified or supplemented from time to time). All holders of Units are entitled to the benefit of, are bound by and are deemed to have notice of the provisions of the Trust Deed.

The Trust Deed contains provisions for the indemnification of the Trustee and the Manager and their relief from liability in certain circumstances. Unitholders and intending applicants are advised to consult the terms of the Trust Deed. In the event of any conflict between any of the provisions of this Prospectus and the Trust Deed, the provisions of the Trust Deed prevail.

### ***Modification of Trust Deed***

Subject to the prior approval of the SFC, the Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee such modification (i) is not materially prejudicial to the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any responsibility to the Unitholders and (with the exception of the costs of preparing and executing the relevant supplemental deed) does not increase the costs and charges payable out of the assets of the Fund; or (ii) is necessary or desirable in order to comply with any fiscal, statutory or official requirement; or (iii) is made to correct a manifest error.

In all other cases modifications require the sanction of an extraordinary resolution of the Unitholders affected.

### ***Meetings of Unitholders***

The Trust Deed provides for meetings of Unitholders to be convened by the Trustee or the Manager upon at least 21 days' notice. Notices of meetings of Unitholders will be posted to Unitholders.

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

as if such person were the registered Unitholder of the Units held by the clearing house (or its nominee(s)), including the right to vote individually on a show of hands.

The quorum at Unitholders' meetings is Unitholders present in person or by proxy holding not less than ten per cent (10%) (or, in relation to a resolution proposed as an extraordinary resolution, twenty five per cent (25%)) of the Units in issue. If a quorum is not present, the meeting will be adjourned for not less than 15 days, and at an adjourned meeting Unitholders whatever their number or the number of Units held by them will form a quorum.

An extraordinary resolution is required under the Trust Deed for certain purposes and is a resolution proposed as such and passed by a majority of seventy-five per cent (75%) of the total number of votes cast.

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

The Trust Deed provides that at any meeting of Unitholders, on a show of hands, every Unitholder who (being an individual) is present in person or (being a partnership or corporation) is present by an authorized representative shall have one vote and, on a poll, every Unitholder who is present as aforesaid or by proxy shall have one vote for every Unit of which he is the holder.

### ***Documents Available for Inspection***

Copies of the Trust Deed, Service Agreement, Participation Agreement(s) and the latest annual and semi-annual reports (if any) are available for inspection free of charge at any time during normal business hours on any day (excluding Saturdays, Sundays and public holidays) at the office of the Manager, 27/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong. Copies of these documents can be purchased from the Manager on payment of a reasonable fee.

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

As part of the Trustee's and the Manager's responsibility for the prevention of money laundering, they may require a detailed verification of an investor's identity and the source of the payment of any subscriptions. Depending on the circumstances of each application, a detailed verification might not be required where:

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

These exceptions will only apply if the financial institution or intermediary referred to above is within a country recognized as having sufficient anti-money laundering regulations.

The Trustee and the Manager reserve the right to request such information as is necessary to verify the identity of an applicant and the source of the payment. In the event of delay or failure by the applicant to produce any information required for verification purposes, the

Trustee and/or the Manager may refuse to accept the application and the application moneys relating thereto.

### ***Enquiries and Complaints***

Unitholders wishing to make an enquiry or complaint about the Sub-Fund should contact the Manager, BOCI-Prudential Asset Management Limited, at 27<sup>th</sup> Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong or call the Manager's enquiry hotline at (852) 2280 8697. Customer services officers of the Manager shall address any enquiries or complaints, by verbal or written form depending on the nature of enquiry/complaint received, about the Sub-Fund received as soon as reasonably practicable.

## **NOTICE TO INVESTORS RELATING TO APPENDICES**

Investors should note that the information set out in Appendices I, II and III is based on publicly available documents that have not been prepared or independently verified by the Manager/Listing Agent, the Trustee or any advisers in connection with the offering and listing of the Sub-Fund, and none of them makes any representation as to or takes any responsibility for the accuracy or completeness of such Appendices.

## **APPENDIX I**

### **A SHARE MARKET IN THE PRC**

In the PRC, shares are classified into different categories according to ownership, two of which are A Shares and B shares. A Shares are further classified into state shares, legal person shares and individual shares. Only individual shares under the A Share category can be publicly transferred and traded on the stock exchanges in Shanghai and Shenzhen whereas state shares and legal person shares are not allowed to trade freely on the stock exchanges. A Shares were initially designed for domestic PRC investors only, but from December 2002 onwards, foreign institutions which are approved as QFII are permitted to invest directly in the A Share market.

Both the Shanghai Stock Exchange and the Shenzhen Stock Exchange are regulated by the China Securities Regulatory Commission. Both exchanges are open from Monday to Friday each week. For the morning session, the period from 9.15 am to 9.25 am is for centralized competitive pricing and the period from 9.30 am to 11.30 am is for consecutive bidding. For the afternoon session, the period from 1.00 pm to 3.00 pm is for consecutive bidding. The stock exchanges are closed on Saturdays and Sundays and other holidays announced by the stock exchanges.

The CSDCC, CCDC, SCH and CFFEX are responsible for the central depository, registration and clearing of the A Shares and other listed securities or other financial instruments permitted under the QFII regime.

Under PRC laws and regulations, a company applying for listing on the Shanghai Stock Exchange or the Shenzhen Stock Exchange must meet certain criteria, including the following:

- the A Shares must have been publicly issued following approval by the securities regulatory authority under the State Council;
- the company's total share capital must be at least RMB 50 million;
- the company must have been in business for more than three years and have made a profit in the last three consecutive years;
- there must be at least 1,000 shareholders, each with holdings of value exceeding RMB 1,000;
- at least 25% of the company's total share capital must be in public hands where the capital is RMB 400 million or less (or a lower "public float" of 15% where the capital of the relevant company is more than RMB 400 million); and
- the company must not have been found guilty of any major illegal activities or false accounting records in the previous three (3) years.

The daily price fluctuations of A Shares are limited to 10% in both directions of the closing price on the previous day. Where there is abnormal financial position or other abnormal situations of a listed company which exposes the listed company to the risk that listing of its shares is likely to be terminated or makes investors unable to judge its prospects and therefore

their rights and interests may be adversely affected, the stock exchange may put the shares of such company under special treatment. The special treatment is classified into risk alert that a listing could be terminated (i.e. delisting risk alert) and special treatment for other reasons.

Where a listed company is under circumstances of delisting risk such as:

- (a) the company suffers losses for the last two (2) consecutive years;
- (b) the company is ordered by the CSRC to correct serious errors or falsehoods in its financial report but fails to make corrections within the specified time limit and trading in its shares has been suspended for two months; or
- (c) the court accepts the company's bankruptcy case and is likely to declare the company bankrupt,

the stock exchange will issue a delisting risk alert on the shares of the company, as a result of which the short name of the company will be prefixed by “\*ST” and the daily up and down limit will be reduced to 5%.

Where a listed company is under circumstances deemed abnormal by the stock exchange such as:

- (a) the shareholders' equity interest for the last fiscal year is negative as shown in the auditor's report;
- (b) principal facilities suffer severe damage as a result of natural disasters or serious accidents, and business activities are seriously affected and unlikely to return to normal within three (3) months;
- (c) principal bank account is frozen; or
- (d) board of directors is unable to convene meetings and comes to resolutions,

the shares of the company will be put under “special treatment for other reasons”, as a result of which the short name of the company will be prefixed by “ST” and the daily up and down limit will be reduced to 5%.

A company's listing on the Shanghai Stock Exchange or the Shenzhen Stock Exchange may be suspended in a number of circumstances, including:

- (a) after the company is put under delisting risk alert as a result of losses for the last two (2) consecutive years, its first annual audit report continues to reveal losses;
- (b) within two (2) months after the company is put under delisting risk alert as a result of failure to correct its financial report, it still fails to correct its financial report as required;
- (c) within two (2) months after the company is put under delisting risk alert as a result of failure to disclose annual report or half-yearly report, it still fails to disclose its annual or half-yearly report.

Where the circumstances are considered particularly serious and where a particular circumstance cannot be rectified, the listing of a company may be terminated.

For further information, investors may visit the website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the website of the Shenzhen Stock Exchange ([www.szse.cn](http://www.szse.cn)).

### **Shanghai Stock Exchange**

The Shanghai Stock Exchange was founded on 26 November 1990 and has been in operation since 19 December 1990. The Shanghai Stock Exchange has become the most preeminent stock market in the PRC in terms of the number of listed companies, number of shares listed, total market value, tradable market value, securities turnover in value and the T-bond turnover in value. As at the end of 23 October 2015, there was a total of 1346 listed companies and total market capitalization of approximately RMB 21.346 trillion.

### **Shanghai-Hong Kong Stock Connect**

The Shanghai-Hong Kong Stock Connect is a securities trading and clearing linked program developed by Hong Kong Exchanges and Clearing Limited (“**HKEx**”), Shanghai Stock Exchange and CSDCC, with an aim to achieve mutual stock market access between mainland China and Hong Kong.

The Shanghai-Hong Kong Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company to be established by the SEHK, may be able to trade eligible shares listed on Shanghai Stock Exchange by routing orders to Shanghai Stock Exchange.

#### **Eligible securities**

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

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

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

#### **Trading day**

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

The following table illustrates the holiday arrangement of Northbound trading of SSE Securities:



	Mainland	Hong Kong	Open for Northbound Trading?	
Day-1	Business Day	Business Day	Yes	
Day-2	Business Day	Business Day	No	HK market closes on money settlement day
Day-3	Business Day	Public Holiday	No	HK market closes on trading day
Day-4	Public Holiday	Business Day	No	Mainland market closes

If a Northbound trading day is a half trading day in Hong Kong market, Northbound Trading will continue until SSE market is closed. The Northbound trading calendar is available on HKEx website.

### Trading hours for trading SSE Securities through Shanghai-Hong Kong Stock Connect

Hong Kong and overseas investors will be required to follow the trading hours of the Shanghai Stock Exchange (SSE) to trade SSE Securities (i.e. Northbound trading). However, SEHK will accept Northbound orders from SEHK Participants (EPs) five minutes before the Mainland market session opens in the morning and in the afternoon.

SSE Trading Session	SSE Trading Hours	Time for EPs to input Northbound orders
Opening Call Auction	09:15 – 09:25	09:10 – 11:30
Continuous Auction (Morning)		09:30 – 11:30
Continuous Auction (Afternoon)	13:00 – 15:00	12:55 – 15:00

*09:20 – 09:25: SSE will not accept order cancellation;*

*09:10 – 09:15; 09:25 – 09:30; 12:55 – 13:00: Orders and order cancellations can be accepted by SEHK but will not be processed by SSE until SSE's market open;*

*Orders that are not executed during the opening call auction session will automatically enter the continuous auction session.*

### Trading quota

Trading under Shanghai-Hong Kong Stock Connect will, initially, be subject to a maximum cross-boundary investment quota (“**Aggregate Quota**”), together with a daily quota (“**Daily Quota**”). Northbound trading will be subject to a separate set of Aggregate and Daily Quota which is monitored by SEHK.

The Aggregate Quota caps the absolute amount of fund inflow into the PRC under Northbound trading. The Northbound Aggregate Quota is set at RMB300 billion.

The Daily Quota limits the maximum net buy value of cross-boundary trades under Shanghai-Hong Kong Stock Connect each day. The quotas do not belong to the Sub-Fund and are utilised on a first-come-first-serve basis. The Northbound Daily Quota is set at RMB13 billion.

SEHK will monitor the quota and publish the remaining balance of the Northbound Aggregate Quota and Daily Quota at scheduled times on the HKEx's website at [www.hkex.com.hk](http://www.hkex.com.hk). The

Aggregate Quota and the Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

### Settlement and Custody

The HKSCC, a wholly-owned subsidiary of HKEx, will be responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

The A Shares traded through Shanghai-Hong Kong Stock Connect are issued in scripless form, so investors will not hold any physical A Shares. Hong Kong and overseas investors who have acquired SSE Securities through Northbound trading should maintain the SSE Securities with their brokers' or custodians' stock accounts with CCASS.

### Corporate actions and shareholders' meetings

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

HKSCC will monitor the corporate actions affecting SSE Securities and keep the relevant brokers or custodians participating in CCASS ("**CCASS participants**") informed of all such corporate actions that require CCASS participants to take steps in order to participate in them.

Companies listed on the Shanghai Stock Exchange usually announce their annual general meeting / extraordinary general meeting information about one month before the meeting date. A poll is called on all resolutions for all votes. HKSCC will advise CCASS participants of all general meeting details such as meeting date, time, venue and the number of resolutions.

### Foreign shareholding restrictions

The CSRC stipulates that, when holding A Shares through Shanghai-Hong Kong Stock Connect, Hong Kong and overseas investors are subject to the following shareholding restrictions:

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

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

### Currency

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

### Trading fees and taxes

In addition to paying trading fees and stamp duties in connection with A Share trading, the Sub-Fund may be subject to new fees, dividend tax and tax concerned with income arising from stock transfers which are yet to be determined by the relevant authorities.

### Investor compensation

The Sub-Fund's investments through Northbound trading under Shanghai-Hong Kong Stock Connect will not be covered by Hong Kong's Investor Compensation Fund. Hong Kong's Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default matters in Northbound trading via Shanghai-Hong Kong Stock Connect do not involve products listed or traded in SEHK or Hong Kong Futures Exchange Limited, they will not be covered by the Investor Compensation Fund.

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

Further information about the Shanghai-Hong Kong Stock Connect is available online at the website: <http://www.hkex.com.hk/eng/csm/chinaConnect.asp?LangCode=en>

## APPENDIX II

### QFII REGULATIONS

#### Introduction

Prior to December 2002, the A Share market was restricted to domestic PRC investors. On 5 November 2002, the China Securities Regulatory Commission (“**CSRC**”) and the People’s Bank of China (“**PBOC**”) issued the “Provisional Rules on the Management of Investment in Domestic Securities” (the “**Provisional QFII Rules**”) (which took effect on 1 December 2002) by certain large approved non-PRC institutional investors, the QFIIs, to permit for the first time investment in A Shares. On 24 August 2006, the CSRC, the PBOC and the State Administration of Foreign Exchange (“**SAFE**”) jointly issued new regulations, the “Measures on the Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors” (“**Measures**”) which became effective on 1 September 2006 to replace the Provisional QFII Rules. Subsequently on 27 July 2012, CSRC released the “Provisions on Relevant Matters Concerning the Implementation of Measures for the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors (QFIIs)” (the “**QFII Provisions**”) to make certain changes to the QFII regulatory regime. The QFII Provisions became effective on 27 July 2012 and replaced the Measures and the “Circular on the Relevant Issues Concerning the ‘Measures on the Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors’”. The rules and regulations governing the establishment and the operation of the QFII regime in the PRC, as may be promulgated and/or amended from time to time including the aforesaid rules and regulations are collectively referred to herein as “QFII Regulations”. The QFII Regulations permit direct investment by QFII’s in RMB-denominated financial instruments approved by the CSRC, including A Shares. The QFII Regulations are subject to changes imposed by the PRC government from time to time. Any such change may impact on the investment and operation of the Sub-Fund.

Domestic securities investments of foreign investors are, however, restricted in a number of ways. The restrictions include:

- a 10% limit on the holding by each underlying foreign investor through QFII of the issued shares in any single listed company;
- a 20% limit on the aggregate holdings by all underlying foreign investors through QFIIs of the issued shares in any single listed company.

As of July 2013, a total of approximately 229 QFIIs have been approved.

#### QFII Eligibility Criteria

A QFII applicant must meet certain eligibility criteria, including:

- (a) it must be financially stable and of good credit worthiness;
- (b) its personnel must comply with the professional qualification requirements of its home country or region;

- (c) it has a sound corporate governance structure and sound internal control system and operational standards, and has not been subject to material penalty by regulatory authority during the previous three (3) years;
- (d) its home country or region has sound legal and regulatory systems, and the securities regulatory authority of its home country or region has entered into a memorandum of cooperation with the CSRC. As of the end of December 2011, there are 47 such countries or regions, including the United States, Hong Kong, Japan, the United Kingdom, Netherlands, Germany, France, Australia, Canada, Belgium, Switzerland and New Zealand; and
- (e) it must satisfy certain asset test and other requirements as follows:
  - fund managers: securities assets under management of not less than US\$500 million in the most recent financial year and engaging in asset management business for more than two (2) years;
  - insurance companies: securities assets held of not less than US\$500 million in the most recent financial year and established for more than two (2) years;
  - securities companies: securities assets under management of not less than US\$5 billion in the most recent financial year, engaging in securities business for more than five (5) years and a net asset amount of not less than US\$500 million;
  - commercial banks: securities assets under management of not less than US\$5 billion in the most recent financial year, engaging in banking business for more than ten (10) years, with tier one capital of not less than USD 300 million;
  - other institutional investors (pension funds, charitable funds, donation funds, trust companies, government investment companies, etc.): securities assets held or under management of not less than US\$500 million and established for more than two (2) years.

## **QFII Approval Procedures**

A QFII applicant must submit separate applications through its custodian to CSRC for the QFII status and to SAFE for the investment quota. Within twenty (20) working days of receipt of the application, the CSRC will examine the application, consult the opinion of SAFE and decide whether or not to approve the application. If the application is approved, a securities investment business permit will be issued to the applicant. If the application is not approved, the applicant will be notified in writing. Within one (1) year from the receipt of the securities investment business permit, the applicant should, through its custodian, apply to SAFE for an investment quota. Within twenty (20) business days of receipt of the application, SAFE will examine the application, consult the opinion of CSRC and decide whether or not to approve the application. If the application is approved, a foreign exchange registration certificate will be issued to the applicant. A QFII may invest in RMB denominated financial instruments approved by the CSRC (including A Shares) within its approved investment quota. If the application is not approved, the applicant will be notified in writing.

## **Custody**

Each QFII must appoint a custodian for safekeeping of its assets and only one (1) custodian may be appointed per QFII. Qualification of a QFII custodian must be approved by the CSRC and SAFE. In order to qualify as a QFII custodian, an applicant must have:

- a dedicated asset custody department;
- paid-up capital of not less than RMB 8 billion;
- sufficient personnel who are familiar with the custodial business;
- the conditions for safekeeping the QFII's assets;
- the capability for secure and efficient clearing and settlement;
- the qualification as a designated foreign exchange bank and to conduct RMB business; and
- no material breach of foreign exchange regulations during the most recent three (3) years.

In addition, a domestic branch of a foreign-invested bank in the PRC having more than three (3) years of continual operation may apply to qualify as a QFII custodian, with paid-up capital amount calculated based on that of its head office. Within thirty (30) working days of receipt of the application, the CSRC and SAFE will jointly issue the approval of the custodian qualification.

Under the QFII Regulations, each QFII is now allowed to hold multiple securities sub-accounts with the PRC securities registration and settlement house that correspond to respective multiple RMB special accounts.

After obtaining the approval of SAFE, a QFII must open a foreign exchange account, a RMB designated deposit account and one (1) or more designated-purpose RMB accounts (for trade in securities) with the custodian to record the receipts and payments of the QFII.

## **Compliance Requirements**

A QFII must report to the CSRC and SAFE within five (5) working days upon occurrence of any of the following events:

- (a) change of custodian;
- (b) change of legal representative;
- (c) change of its controlling shareholder;
- (d) adjustment of registered capital;
- (e) material litigation or other material events; or
- (f) being subject to material penalty outside the PRC.

A QFII must re-apply for the securities investment business permit upon the occurrence of the following events: (a) change of name; or (b) acquisition by or merger with another entity.

When re-applying for the securities investment business permit, a QFII may continue to conduct securities trading unless otherwise required by the CSRC.

A QFII must return its securities investment business permit and the foreign exchange registration certificate to the CSRC and SAFE upon occurrence of the following events:

- (a) it has not made any application to SAFE for an investment quota within one (1) year of the receipt of the securities investment business permit;
- (b) it is dissolved, under insolvency proceedings or under receivership;
- (c) it re-applies for a securities investment business permit; or
- (d) it commits material breach of laws.

## APPENDIX III

### THE CSI 300 INDEX (“CSI 300”)

The CSI 300 is a diversified index consisting of 300 constituent stocks which are listed on the Shenzhen Stock Exchange and/or the Shanghai Stock Exchange, and it is estimated that as of 23 October 2015, these 300 stocks of the CSI 300 represent around 50% of the total market capitalization of the two stock exchanges. It is a free-float market capitalization weighted index and is compiled and managed by China Securities Index Co., Ltd., which was established jointly by the Shenzhen Stock Exchange and Shanghai Stock Exchange to provide services relating to securities indices. China Securities Index Co., Ltd. is independent of the Manager.

The Sub-Fund is not in any way endorsed, sold, sponsored or promoted by China Securities Index Co., Ltd. or by the SEHK. Neither the SEHK nor China Securities Index Co., Ltd. makes any warranty or representation whatsoever, expressly or impliedly, either as to the results of the use of the CSI 300. The CSI 300 is calculated by or on behalf of China Securities Index Co., Ltd.. However, neither China Securities Index Co., Ltd. nor the SEHK shall be liable (whether in negligence or otherwise) to any person for any error in the CSI 300 or shall be under any obligation to advise any person of any error therein.

Below is a brief summary of the basic information, selection criteria, selection methodology and maintenance of the CSI 300 as of the date of publication of this Prospectus. Such information is subject to revision from time to time by China Securities Index Co., Ltd. and before making investment decisions, investors should refer to the website of China Securities Index Co., Ltd. ([www.csindex.com.cn](http://www.csindex.com.cn)) for the latest version of such information.

#### 1. Basic Information

Index codes

Shanghai Stock Exchange Quote System Code 000300

Shenzhen Stock Exchange Quote System Code 399300

Base Date and Base Point

The base date is December 31, 2004 and the base point is 1,000.

Number of Constituent Stocks

300



## Index Dissemination

The CSI 300 is widely disseminated in and outside China through the following channels:

- (1) nationwide dissemination through the real-time satellite broadcasting system of the Shanghai Stock Exchange and the Shenzhen Stock Exchange;
- (2) immediate global reporting through the Reuters and Bloomberg financial news systems;
- (3) daily publication in media such as the China Securities Journal, the Shanghai Securities News and the Securities Journal; and
- (4) daily posting on the websites of China Securities Index Co., Ltd. ([www.csindex.com.cn](http://www.csindex.com.cn)), the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Shenzhen Stock Exchange ([www.szse.cn](http://www.szse.cn)).

## Ten (10) Largest Constituent Stocks

As at 23 October 2015, the ten (10) largest constituent stocks of the CSI 300 (out of 300 constituent stocks) and their respective weightings are listed below:

Code	Stock Name	% of CSI 300
601318	Ping An Insurance (Group) Company of China Ltd.	3.95
600036	China Merchants Bank Co., Limited	3.24
600016	China Minsheng Banking Corp., Ltd.	2.79
600000	Shanghai Pudong Development Bank Co., Ltd.	1.92
601166	Industrial Bank Co., Ltd.	1.86
000002	China Vanke Co., Ltd	1.44
601766	CRRC Corporation Limited	1.43
601328	Bank of Communications Co., Ltd.	1.38
600030	CITIC Securities Company Limited	1.33
600837	Haitong Securities Company Limited	1.33

The investors should note that the list of constituent stocks of the CSI 300 may be updated from time to time and the complete list of constituent stocks of the CSI 300 is available on the website of China Securities Index Co., Ltd. ([www.csindex.com.cn](http://www.csindex.com.cn)).

## 2. Selection of Constituent Stocks

### Stock Universe

Inclusion in the stock universe for the CSI 300 is subject to all of the following conditions:

- (1) For non-ChiNext stocks, the stock has been listed for more than three (3) months, unless its average daily A Share market capitalization since its initial listing ranks among the top thirty (30) of all A Shares (non-ChiNext stocks).

For ChiNext stocks, the stock has been listed for more than three (3) years;

- (2) the stock is not a ST or \*ST stock, and its listing has not been suspended;
- (3) the company's operating condition is good; and it has committed no material violations of laws or regulations, and there have been no material problems with its financial reports, during the most recent year;
- (4) its stock price is not experiencing obvious abnormal fluctuations or market manipulation; and
- (5) it is not considered by the Index Advisory Committee to be unsuitable for the CSI 300.

#### Selection Criteria

The constituent stocks selected should be large and liquid stocks.

#### Selection Methodology

The selection methodology is as follows:

- (a) calculate the daily average trading value and daily average total market capitalization during the most recent year (or in case of new issue, during the time since its initial listing) for all the stocks in the stock universe;
- (b) rank the stocks in the stock universe in descending order according to their average daily trading values, and exclude the bottom 50%;
- (c) rank the remaining stocks in descending order according to their average daily market capitalization and select those which rank top 300 as constituent stocks of the CSI 300.

### 3. Calculation of the CSI 300

#### Calculation Formula

The CSI 300 is calculated using the Paasche weighted composite price index formula. The formula is:

$$\text{Current Index} = \frac{\text{Current adjusted market cap of constituents}}{\text{Base Period}} \times 1000$$

Where: adjusted market cap =  $\sum$  (market price  $\times$  adjusted number of shares)

#### Free Float

To reflect the price fluctuation of tradable shares in the market, the CSI 300 adopts free float shares to calculate the index exclusively of non-negotiated shares which include (1) shares held on a long-term basis by the company's founders, family members and senior management; (2) government holdings; (3) shares held by strategic investors (e.g. companies, banks, etc.); (4) frozen shares; (5) restricted employee shares; (6) cross-holdings.

If the holdings of shareholders of the six categories set out above and their persons acting in concert is larger than 5%, the holdings will be defined as non-free float. Together with the restricted shares announced by listed companies, they are all deemed as non-free float shares. The free float shares of a company is equal to the total number of A shares minus the non-free float shares.

#### Category-weighted method

For the sake of index stability, the CSI 300 adopts category-weighted method to adjust the constituent shares for index calculation. The adjusted number of shares will be the total number of A shares multiplied by the inclusion factor (as determined below). The category-weighted method is indicated by the following chart. For example, stock with a negotiable market cap ratio (i.e. free float / total A shares) of 11.4%, which is below 15%, the inclusion factor would be taken as the nearest higher percentage point, i.e. 12%. A stock with a negotiable market cap ratio of 35% will belong to the category (30, 40] (i.e. negotiable market cap ratio which is greater than 30% but less than or equal to 40%), and the corresponding inclusion factor is 40%, i.e. 40% of the total A shares will be used for index calculation.

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

#### **4. Index Maintenance**

The CSI 300 is maintained using the “divisor adjustment methodology”. In the event of a change in the list of constituents or in a constituent's equity structure, or a change in the adjusted market capitalization of a constituent stock due to non-trading factors, the old divisor is adjusted by means of the divisor adjustment methodology, so as to maintain the continuity of the index. The adjustment formula is as follows:

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

Where: “adjusted market cap after divisor adjustment” = adjusted market cap before divisor adjustment + increase (decrease) in adjusted market capitalization. The new

divisor (i.e. the adjusted divisor, also known as the new base period) is obtained from this formula and used to calculate the CSI 300.

Circumstances under which maintenance of the CSI 300 is required include the following:

- ex-right: when there are bonus issues, rights issues, stock splits or stock consolidation for a constituent stock, the CSI 300 is adjusted the day before the issuance;
- for other corporate events, such as secondary offering or the exercise of warrants, if the cumulative change of constituent stocks is greater than or equal to 5%, the CSI 300 is adjusted prior to the date of the change; if the cumulative change of constituent stocks is less than 5%, the adjustment will be implemented in the next regular review;
- suspension of trading: if a constituent stock is suspended from trading, its last trading price is used to calculate the CSI 300, until trading is resumed;
- change in capital stock: whenever a change occurs in the capital stock of a CSI 300 constituent (e.g. due to the issue of new shares, the listing of a rights issue, the listing of employee shares, etc.), the CSI 300 is adjusted prior to the date of the change in capital stock;
- when there is a periodic adjustment or an ad hoc adjustment of the list of constituent stocks of the CSI 300, the CSI 300 is adjusted prior to the date of the change.

## **5. Adjustments to Constituent Stocks**

### **Periodic Adjustments**

- (1) In principle, the constituent stocks of the CSI 300 are adjusted once every six months. The adjustment shall be implemented on the next trading day after the close of the second Friday in June and December each year.
- (2) The percentage of each adjustment does not exceed 10%. Buffer zone rules are adopted. Old constituent stocks ranking top 60% by average daily trading value in the universe could go to the next step to be ranked by market capitalization. New stocks ranking among the top 240 in the universe will be given priority to be added to the CSI 300, and old constituent stocks ranking top 360 will be given the priority to remain in the CSI 300.
- (3) In principle, the stock of a company that reported a loss in its most recent financial report is not added among the newly selected constituents, unless the stock affects the representativeness of the CSI 300.
- (4) At the time of the periodic adjustment, a reserve list is determined for use in *ad hoc* adjustments to the constituent stocks. If a vacancy occurs in the CSI 300 or an interim replacement of a constituent stock becomes necessary as a result of

the delisting or merger etc. of a constituent stock, the stocks at the top of the reserve list are selected, in the order of their ranking, as constituent stocks. Generally, the number of stocks in the reserve list accounts for 5% of the number of the CSI 300 constituent stocks and the reserve list for the CSI 300 contains fifteen (15) stocks. The reserve list is replenished when more than half of the stocks in the reserve list have been used.

#### *Ad Hoc Adjustments*

- (1) If a newly issued stock meets the conditions for inclusion in the stock universe and is ranked among the top ten (10) stocks on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in terms of market capitalization, it triggers the rule of accelerated addition to the CSI 300, which means that the stock is added to the CSI 300 after the end of the 10<sup>th</sup> trading day following its listing, and that the stock ranked lowest among the existing CSI 300 constituent stocks in terms of average daily market capitalization during the most recent year period is deleted at the same time.
- (2) If a newly issued stock meets the conditions for accelerated addition to the CSI 300 but there are less than twenty (20) trading days between the time of its listing and the effective date of the next periodic adjustment to the CSI 300 constituents, then the rule of accelerated addition to the CSI 300 is not triggered and the addition will take place during the periodic adjustment.
- (3) If a stock meets the above-mentioned conditions for accelerated addition to the CSI 300 due to an increase in market capitalization resulting from the issue of additional shares, restructuring or merger, etc., it is handled in the same way as are newly issued stocks.
- (4) In the event of a merger between two (2) or more constituents, the stock of the new, post-merger company will continue to qualify as a CSI 300 constituent, and the vacancy or vacancies occurring in the CSI 300 will be filled by the stock or stocks ranked at the top of the reserve list. The original constituents will remain in the CSI 300 until the stock of the new company is added.
- (5) In the event of a merger between a constituent and a non-constituent, the stock of the new, post-merger company will continue to qualify as a CSI 300 constituent. The original constituent will remain in the CSI 300 until the stock of the new company is added.
- (6) If a non-constituent acquires or takes over a constituent, the stock of the company ranked at the top of the reserve list will become a CSI 300 constituent on the date of delisting of the constituent acquired or taken over provided that the stock of the new, post-merger company ranks above the stock of the company ranked at the top of the reserve list, the stock of the new company will become a CSI 300 constituent. The original constituent will remain in the CSI 300 until the stock of the new company is added.

- (7) If a constituent is split into two (2) or more companies, whether the post-division companies will qualify as the CSI 300 constituents will depend on their rankings as follows:
- (a) If the stocks of the post-division companies all rank above the constituent stocks which rank the lowest among the original constituent stocks of the CSI 300, the stocks of all post-division companies will be added to the CSI 300 as new constituents and the lowest ranking original constituent stocks will be deleted, so that the number of constituent stock remain unchanged. The stocks of the post-division companies will be included in the CSI 300 on the second day of their listings. The stock of the original, divided company will remain in the CSI 300 until the new constituent stocks are added.
  - (b) If the stocks of some of the post-division companies ranks above the lowest ranking of the original constituent stocks, then the stocks of these companies will be added to the CSI 300 as new constituent stocks. The new constituent stocks will be included in the CSI 300 on the second day of their listings. The stock of the original, divided company will remain in the CSI 300 until the new constituent stocks are added.
  - (c) If the stocks of all of the post-division companies rank below the lowest ranking of the original constituent stocks but the stocks of all or some of those companies rank above the stock at the top of the reserve list, the stock of the post-division company with the highest ranking will be added to the CSI 300 as a new constituent stock replacing the original divided company. The new constituent stock will be included in the CSI 300 on the second day of its listing. The stock of the original divided company will remain in the CSI 300 until the new constituent stock is added.
  - (d) If the stocks of all of the post-division companies rank both below the lowest ranking of the original constituents and below the stock at the top of the reserve list, then the stock at the top of the reserve list will become a CSI 300 constituent on the date of delisting of the original, divided company.
- (8) If the issuer of a constituent stock files for bankruptcy, the constituent stock will be deleted from the CSI 300 as soon as possible and the resulting vacancy will be filled by the highest-ranking stock in the reserve list.
- (9) If the issuer of a constituent stock is delisted or has its listing suspended, the constituent stock will be deleted from the CSI 300 and replaced by the highest-ranking stock in the reserve list on the date of its delisting or suspension.

## **APPENDIX IV**

### **OPERATION OF THE SUB-FUND**

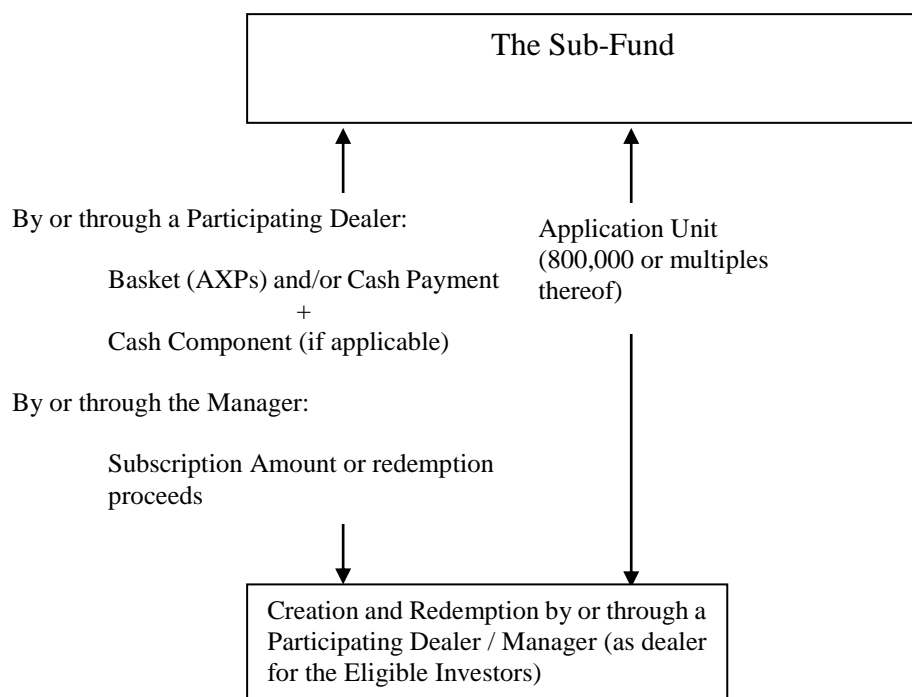
#### **Creation and Redemption of Units**

Units of the Sub-Fund may only be created and redeemed in Application Unit sizes directly by Participating Dealer(s) or Eligible Investor(s) (save for, in the case of a Creation or Redemption Application by an Eligible Investor, subject to such terms and conditions as specified in the relevant application forms, the other requirements set out in the section "Creation and Redemption of Units" and the applicable QFII regulations and restrictions) from the Manager and may not be created or redeemed directly by other investors from the Manager. Such other investors may only make a request (and if such investor is a retail investor, through a stockbroker which has opened an account with a Participating Dealer) to create or redeem Units in Application Unit sizes through a Participating Dealer. If the investor is a retail investor, such request must be made through a stockbroker which has opened an account with a Participating Dealer. However, such investor shall pay the subscription proceeds plus any fees and charges charged by the relevant Participating Dealer to, or receive the redemption proceeds (i.e. the Redemption Price multiplied by the number of Units redeemed minus any fees and charges charged by the relevant Participating Dealer) from, the relevant Participating Dealer in cash only. An Eligible Investor may also directly make a request to the Manager (in its capacity as dealer for the Eligible Investors) to create or redeem (subject to such terms and conditions as specified in the relevant application forms, the other requirements set out in the section "Creation and Redemption of Units" and the applicable QFII regulations and restrictions) Units in cash.

The Manager shall receive subscription proceeds for the creation of Units and pay redemption proceeds for the redemption of Units in such form and manner as prescribed by the Trust Deed. The Participating Dealer(s) and the Eligible Investor(s) should ensure that the relevant Application shall comply with the requirements for an Application for creation or redemption of Units set out in the Trust Deed. Each Participating Dealer may charge such fees as it may reasonably determine from time to time for submitting an Application on behalf of a retail investor.

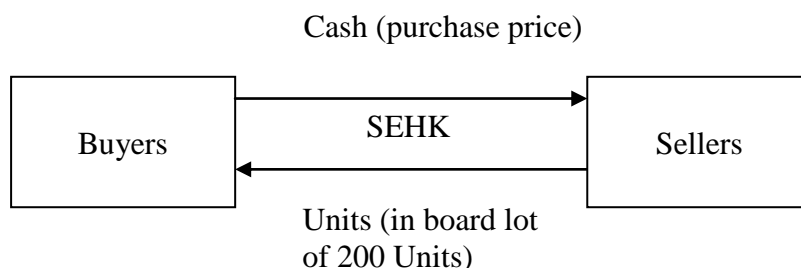
Investor should note that the dealing procedures for creation and redemption of Units through the Participating Dealer(s), the Manager (with respect to an Application by an Eligible Investor) or a stockbroker may be different from those set out for the Sub-Fund in this Prospectus. For example, the dealing deadline set by the Participating Dealer(s), the Manager (with respect to an Application by an Eligible Investor) or the stockbroker may be earlier than that set out for the Sub-Fund in this Prospectus. Investors should therefore check the applicable dealing procedures with the Participating Dealer(s), the Manager or the stockbroker (as the case may be).

The diagram below illustrates the creation and redemption of Units:



### Trading of Units on the SEHK

An investor can buy or sell the Units through his stockbroker on the SEHK. The diagram below illustrates the trading of Units on the SEHK:



**No money should be paid to any intermediary in Hong Kong which is not licensed for Type 1 regulated activity under Part V of the Securities and Futures Ordinance.**

Subject to applicable regulatory requirements, the Manager intends to ensure that there is at least one (1) market maker for the Sub-Fund to facilitate efficient trading. A market maker is a broker or a dealer permitted by the SEHK to act as such by making a market for the Units in the secondary market on the SEHK. A market maker is obliged to quote bid prices to potential sellers and offer prices to potential buyers when there is a wide spread between the prevailing bid prices and offer prices for Units on the SEHK in order to facilitate the efficient trading of Units by providing liquidity in the secondary market when it is required in accordance with the market making requirements of the SEHK. The list of market makers in respect of the Sub-Fund will be displayed on SEHK's website ([www.hkex.com.hk](http://www.hkex.com.hk)).



## **Mechanism in respect of an AXP**

Each Participating Dealer will, either by itself or through a Connected Person, sell AXPs to the Sub-Fund. Each Participating Dealer must be a QFII or a Connected Person of a QFII. Each QFII may buy and sell A Shares of PRC companies listed on the Shenzhen Stock Exchange or Shanghai Stock Exchange pursuant to the QFII Regulations. Issuance of the AXPs provides non-QFIIs access to PRC's domestic A Share market. By purchasing, holding and selling AXPs, each of which is linked to an A Share or a Basket of underlying A Shares comprised in the CSI 300, the Sub-Fund will seek to achieve its investment objective of tracking the CSI 300.

### *Issuance*

The AXPs are derivative instruments (such as warrants, certificates or notes) and are linked to a dynamic basket of shares of companies (the “**Basket**”) which comprise the constituent stocks (or a representative thereof) from time to time of the CSI 300. The AXPs are Hong Kong dollar or US dollar denominated, and are mostly over the counter derivative instruments and quoted on a quotation system (such as Bloomberg). In the future, however, the Manager may accept AXPs which are listed on a stock exchange acceptable to the Manager.

### *Duration*

Each AXP is of a fixed duration agreed with the AXP issuer, generally ranging from four (4) to ten (10) years. The issuers of AXPs may however agree to extend the duration of the AXPs for additional terms subject to certain conditions, which include but is not limited to: (a) normal market conditions, (b) limits imposed on QFIIs in relation to the holding of A Shares, and (c) any material changes to PRC laws and regulations relating to investment in PRC securities such that the AXP issuer is unable to offer or issue further AXPs.

### *Basket Rebalancing*

Where there are changes in the constituent A Shares comprised in the CSI 300 and/or their respective weightings within the CSI 300, the Manager may rebalance the holding of the relevant AXPs (where each of the AXP(s) is linked to an A Share); or rebalance the underlying dynamic basket of A Shares of selected constituent companies of the CSI 300 (where each of the relevant AXP(s) is linked to a Basket of A Shares) by changing, or in some cases, requesting the AXP issuer to change the Basket of the relevant A Shares. Where the rebalancing is via the AXP issuer, any net inflow or outflow (inclusive of transaction costs and difference in value between the old Basket and new Basket of A Shares) will be settled in cash between the AXP issuer and the Sub-Fund.

Investor should note that each AXP issuer or any of its Connected Person(s) may, but is not obliged to, hedge its exposure arising from AXPs it has issued. Where an AXP is hedged the Sub-Fund has no proprietary or security interest over any assets underlying such hedge and the cost of unwinding the hedge will ultimately be borne by the Sub-Fund.

### *Valuation of AXP*

The AXPs represent an investment similar to a direct investment in the Basket of A Shares forming from time to time. The cash settlement amount payable to an investor of an AXP

following exercise/sale/redemption/expiry of an AXP will be equal to the sum of the value of all A Shares forming the Basket (determined by the calculation agent with reference to the official closing bid price of the relevant A Shares and the exchange rate on the relevant valuation date), minus other costs (such as trading costs and the strike and certain other deductions as agreed between the parties). The cash settlement amount is subject to deduction of the applicable tax provisions, duties and/or expenses as agreed with the AXP issuer. (Please refer to paragraph (x) of the section “Risk Factors” for further details on the applicable tax provisions.) Fees payable by Sub-Fund to the AXP issuer and the valuation of the AXPs may be quoted in HK dollars, to be converted at such exchange rate by the AXP issuer by reference to agreed reference sources.

The AXPs will normally be valued by a calculation agent. The calculation agent will determine the value of the AXPs by reference to the closing bid price(s) of the underlying A Share(s) at the end of each Business Day. Indicative prices (which exclude transaction costs such as execution fee (including PRC stamp duty) and maintenance fee charged by an AXP issuer, the Capital Gain Tax and any other transaction costs and expenses (which shall be at a reasonable level) for the AXPs are quoted continuously by the calculation agent on a designated Bloomberg page. Should the Manager be in any doubt as to the valuations of the AXPs determined by the calculation agent, the Manager will request an independent third party to review the valuations in order to confirm their fairness. The Trustee will conduct periodic independent valuations of AXPs. In the event of any discrepancy between the price of the AXPs quoted by the calculation agent and that determined by the Trustee, the Trustee and the calculation agent will, in consultation with the Manager, try to reconcile the discrepancy.

### *Settlement*

The AXPs will be redeemed, exercised or otherwise settled with the AXP issuer in accordance with their terms upon expiry, and (if the terms of the AXPs permit) at any time before their expiry. Settlement may presently only be made in cash.

In addition to redemption described above, the AXP issuer may agree to repurchase AXPs at the request of the Manager from time to time at a price agreed between the Manager and the AXP issuer. Under normal circumstances, the Manager will not seek to sell the AXP to third parties.

### **Participating Dealer(s)**

The role of the Participating Dealer(s) is to apply to create and redeem Units in the Sub-Fund from time to time. Under the terms of each Participation Agreement, the relevant Participating Dealer may only apply to create Units on the presentation of (a) a Basket by it comprising AXPs relating to the A Shares comprised in the CSI 300 (where each of the AXP(s) is linked to an A Share); or (b) AXP(s) where each of the AXPs is linked to a Basket of A Shares.

The Manager has the right to appoint the Participating Dealers for the Sub-Fund. The criteria for the eligibility and selection of Participating Dealers by the Manager is as follows: (i) the Participating Dealer must be licensed for at least Type 1 regulated activity pursuant to the Securities and Futures Ordinance with a business presence in Hong Kong; (ii) the Participating Dealer must be a QFII or must belong to a QFII group (i.e. group of companies of which a member is a QFII); (iii) the Participating Dealer (or a Connected Person of the Participating Dealer) must undertake to buy and sell AXPs as envisaged by this Prospectus on an ongoing

basis; (iv) the Participating Dealer must be acceptable to the Trustee; and (v) the Participating Dealer must be a participant in CCASS; and (v) the Participating Dealer and its agent(s) (if any) must be acceptable to the Manager, and the Participating Dealer and/or its agent(s) must be duly authorized CCASS participant(s).

Deutsche Securities Asia Limited ("**DSAL**") is a Participating Dealer.

DSAL is a company incorporated in Hong Kong having its registered office at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. DSAL is licensed by the SFC in Hong Kong for types 1, 2, 4, 5, 6 and 7 regulated activities under the Securities and Futures Ordinance. DSAL is an indirect wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft and has two branch offices in Singapore and Taiwan.

UBS Securities Hong Kong Limited ("**UBSS HK**") is a Participating Dealer.

UBSS HK is a company incorporated in Hong Kong and its main business address is 46-52 Floors, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. UBSS HK is a licensed corporation authorized to carry on Types 1, 6 and 7 regulated activities in Hong Kong pursuant to the Securities and Futures Ordinance. UBSS HK is a wholly-owned subsidiary of UBS AG.

Credit Suisse Securities (Hong Kong) Limited ("**CS HK**") is a Participating Dealer.

CS HK is a company incorporated in Hong Kong having its office at Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. CS HK is licensed to carry out Types 1, 4 and 7 regulated activities in Hong Kong under the Securities and Futures Ordinance. CS HK is a wholly-owned subsidiary of Credit Suisse AG and the ultimate parent is Credit Suisse Group AG.

The Manager will use its reasonable endeavours to appoint additional Participating Dealers. In the event that additional Participating Dealers are appointed, the Manager will notify Unitholders by way of an announcement. The list of Participating Dealers is also available on [www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese).

## **QFII**

A QFII may buy and sell the underlying A Shares in order to hedge the obligations of the relevant AXP issuer relating to AXPs that are bought or sold by the Sub-Fund.

Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**") is a QFII.

Deutsche Bank is a Connected Person of DSAL, a Participating Dealer. Deutsche Bank originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. Deutsche Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at

Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the "**Deutsche Bank Group**").

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. Deutsche Bank may realize these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, Deutsche Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of Deutsche Bank, in particular: to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

UBS AG is a QFII.

UBS AG was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CH-270.3.004.646-4.

UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Code of Obligations and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

UBS shares are listed on the SIX Swiss Exchange and the New York Stock Exchange.

According to Article 2 of the Articles of Association of UBS AG ("**Articles of Association**") the purpose of UBS is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, service and trading activities in Switzerland and abroad.

Credit Suisse (Hong Kong) Limited is a QFII.

Credit Suisse Group AG is registered as a Swiss corporation in the Commercial Register of the Canton of Zurich under the registration number CH-020.3.906.075-9 and has its registered offices in Zurich, Switzerland.

Its business purpose, as set forth in Article 2 of its Articles of Association, is to hold direct or indirect interests in all types of businesses in Switzerland and abroad, in particular in the areas of banking, finance, asset management and insurance.

Registered shares of Credit Suisse Group AG are listed in Switzerland and as American Depositary Shares in New York.

More QFIIs may be engaged by the AXP issuers in the future. In the event that additional QFIIs are appointed, the Manager will notify Unitholders by way of an announcement. The list of QFIIs is also available on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).

Please see Appendix II for a description of the QFII Regulations.

### AXP issuer

Generally, the role of the AXP issuer is to issue the AXPs relating to the underlying A Shares comprised in the CSI 300. The AXPs may be issued to a Participating Dealer (or a Connected Person of the Participating Dealer).

An AXP issuer must meet the following criteria: (i) it should be a QFII or belong to a QFII group; (ii) it or the guarantor of the relevant AXP issued by it (if any) must have a credit rating acceptable to the Manager (taking into account factors such as the prevailing market conditions, the credit ratings of other entities with comparable financial standing and the credit rating of the holding company of the relevant counterparty); and (iii) it or the guarantor of the relevant AXP issued by it (if any) must be either an authorized institution as defined in section 2(1) of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), or a financial institution with a minimum paid-up capital of HK\$150 million or its equivalent in foreign currency. As a general requirement, the Manager expects that the relevant AXP issuer or the guarantor of the relevant AXP (if any) should have a minimum credit rating of investment grade. As part of its risk management process, the Manager will closely monitor the risks of the Sub-Fund (including the counterparty risks in relation to the relevant AXP issuer, its guarantor (if any) and the collateral provider) in the interest of protecting the Sub-Fund and its investors. The Manager will take such measures and actions as reasonably and practicably available to it in the event of any substantial downgrading of credit rating or other material adverse change concerning any of such counterparties, including seeking additional collateral and/or AXP issuers. However, there can be no assurance that such measures will be available or effective and there may be additional charges, fees and expenses, and dealings of the Units of the Sub-Fund may need to be suspended, the Sub-Fund may suffer very significant losses and it may be ultimately terminated.

The list of AXP issuers together with the gross and net exposure to each AXP issuer and the collateral arrangement provided, are available on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)). As at the date of this Prospectus, the AXP issuers of the Sub-Fund are:

AXP issuer	Place of Incorporation
Deutsche Bank AG London (“ <b>Deutsche Bank</b> ”)	Germany
UBS AG, London Branch (“ <b>UBS</b> ”)	Switzerland
Credit Suisse International	England and Wales

The Manager will use its reasonable endeavours to appoint AXP issuers. In the event that additional AXP issuers are appointed, the Manager will notify Unitholders by way of an announcement.

The Manager may from time to time implement measures as it deems appropriate including, without limitation, obtaining collateral from the AXP issuer(s) (for example, by way of a securities borrowing and lending arrangement or appointing additional AXP issuers) with a view to reducing, so far as reasonably practicable subject to market conditions, the exposure of the Sub-Fund to each AXP issuer. The Sub-Fund will obtain collateral in accordance with the Collateral Management Policy and mitigate the counterparty risk of the Sub-Fund. The costs of any such measures will be borne by the Sub-Fund. There is no assurance that the Manager will always be able to obtain and maintain such collateral. Details of the risks involved are set out in paragraphs (a) and (cc) of the section “Risk Factors” above.

## **APPENDIX V**

### **FEES AND CHARGES APPLICABLE TO THE SUB-FUND**

#### **Management Fee and Servicing Fee**

The Manager is entitled to receive a management fee, currently at the rate of 0.99 per cent per annum of the Net Asset Value of the Sub-Fund accrued daily and calculated as at each Dealing Day and payable monthly in arrears.

In addition, the Manager is also entitled to receive a servicing fee but currently intends to waive the servicing fee. For the avoidance of doubt, any reference to "servicing fee" in this section "Management Fee and Servicing Fee" does not mean or include the entitlement of the Manager (in its capacity as dealer for the Eligible Investors) to such part of the handling fee as the Manager may in its absolute discretion determine (with respect to Eligible Investors' Creation or Redemption Applications).

#### **Registrar's Fee and Service Agent's Fee**

The Manager shall bear the Registrar's fees. Fees chargeable by the Service Agent shall be borne by the Manager and the Participating Dealer(s), the details of are set out in the table under the "Fees Payable by Participating Dealers, Eligible Investors and Retail Investors" section below.

#### **AXP Fees and Charges**

##### *Execution Fee*

An AXP issuer charges an execution fee (inclusive of local broker commissions and market charges of up to 0.9% plus the PRC stamp duty which is currently 0.1% for any sale of securities) of the rebalance purchase or sale amount of the A Shares underlying the AXP that the Manager purchases or sells on behalf of the Sub-Fund from the AXP issuer for the purpose of rebalancing the index constituents. However, such execution fee does not apply to situations where Units are being created or redeemed. The execution fee is included in the cash adjustment amount and is accordingly an expense borne by the Sub-Fund. If PRC stamp duty becomes payable in respect of any purchase of the A Shares, then such PRC stamp duty will be included in the execution fee.

##### *Maintenance Fee*

In addition to the AXP execution fee, an AXP issuer shall also be entitled to charge an AXP maintenance fee, payable at the end of each quarter, equal to (a) 0.3 per cent per annum of the daily mark to market value ("MTM") of all AXPs issued by the relevant AXP issuer held by the Sub-Fund during each quarter (based on the actual number of days in that quarter) (up to US\$100 million, if applicable), and (b) if applicable, 0.2 per cent per annum of that part of the daily MTM of all AXPs issued by the relevant AXP issuer held by the Sub-Fund in excess of US\$100 million during each quarter (based on the actual number of days in that quarter). The MTM shall be based on the official closing bid prices of the A Shares constituting the

underlying dynamic basket of the AXP, converted into Hong Kong dollars at such reference exchange rate reasonably determined by the AXP issuer.

### *Capital Gain Tax and Distribution Tax*

The Sub-Fund is the ultimate party which bears the risks relating to the following taxes if they are so levied by the PRC tax authority: (a) capital gain tax (the “**Capital Gain Tax**”) and (b) distribution tax (the “**Distribution Tax**”), the details of which are set out below.

### **Capital Gain Tax**

On 14 November 2014, the Ministry of Finance of the PRC, the State Administration of Taxation of the PRC and the CSRC issued “Caishui [2014] No. 79 - The Circular Concerning the issue of temporary exemption from the imposition of capital gain tax arising from gains from the transfer of equity investment assets such as PRC domestic stocks by QFII and RQFII” (the “**PRC CGT Circular**”) along with “Caishui [2014] No. 81 - The Circular on Issues Relating to the Tax Policy of the Pilot Inter-connected Mechanism for Trading on the Shanghai and Hong Kong Stock Markets” (the “PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular”). Pursuant to the PRC CGT Circular, effective from 17 November 2014, capital gains derived by a QFII or RQFII from dealings in A Shares are exempt from enterprise income tax; such exemption, however, will not apply to capital gains derived by a QFII or RQFII from transactions prior to 17 November 2014. Pursuant to the PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular, effective from 17 November 2014, Hong Kong market investors, both enterprises and individuals, investing in A Shares via Shanghai-Hong Kong Stock Connect are exempt from income tax on capital gains derived from the sales of A Shares traded in the Shanghai Stock Exchange.

Accordingly, the latest Capital Gain Tax provisioning approach is as follows.

#### *Gains from 17 November 2014*

- (i) From 17 November 2014 onwards until further notice, the Sub-Fund or the AXP issuer will not set aside any provision for Capital Gain Tax derived from the gains from dealings in A Shares by a QFII in relation to which the underlying A shares to which an AXP is linked or by the Sub-Fund through the Manager’s QFII investment quota or by the Sub-Fund in investing in A Shares that are SSE Securities via the Shanghai-Hong Kong Stock Connect.

#### *Gains up to and including 14 November 2014*

- (ii) The Manager (in its capacity as QFII) or the QFII in relation to the underlying A Shares to which an AXP was linked would each be subject to tax on gains from dealings in A Shares derived up to and including 14 November 2014. The Manager (in its capacity as QFII) and the QFII would pass on the liability of such taxes to the Sub-Fund. In other words, the Sub-Fund would be the ultimate party which bears the risks relating to tax liability of the QFIIs (including the relevant QFII and the Manager) in relation to the A Shares.

In respect of AXP, up to and including 14 November 2014, a provision of 10% has been made by an AXP issuer or the Sub-Fund (depending on the tax arrangement between the Sub-Fund and the relevant AXP issuer), and in respect of the A Shares acquired up to and including 14 November 2014 by the Manager on behalf of the Sub-Fund through the Manager’s QFII investment quota, a provision of 10% has been set aside by the Sub-Fund. However, the actual applicable tax rates imposed by the PRC tax authority may be different and may change from



time to time. If the actual applicable tax rate levied by the PRC tax authority is more than the Capital Gain Tax provision the Sub-Fund will have to bear the additional tax liabilities.

The Manager will assess the Capital Gain Tax provision approach on an on-going basis. Should the PRC tax policies in respect of the Capital Gain Tax change, the Manager may decide to set aside provision to meet any potential Capital Gain Tax liability in the future.

*Separate Arrangements with AXP issuers as regards the Treatment of the Provision of Capital Gain Tax*

The current tax arrangements with Deutsche Bank and UBS are set out below. Where there are any subsequent changes to the tax arrangement below or any additional tax arrangements, the Manager will notify Unitholders by way of an announcement, and such information (including the list of AXP issuers) will also be available on the Manager's website ([www.boci-pru.com.hk/english/etf/intro.aspx](http://www.boci-pru.com.hk/english/etf/intro.aspx) (for English), or [www.boci-pru.com.hk/chinese/etf/intro.aspx](http://www.boci-pru.com.hk/chinese/etf/intro.aspx) (for Chinese)).

*Capital Gain Tax Provision with respect to AXPs issued by Deutsche Bank*

All references to AXPs held by the Sub-Fund in the paragraphs below on the DB 5-year Tax Provision Arrangement and DB AXP Sale Arrangement refer to the AXPs issued by Deutsche Bank only.

*(a) DB 5-year Tax Provision Arrangement*

Effective from 10 September 2009 and for a period of up to five (5) years ("**5 year period**"), Deutsche Bank withheld all the Capital Gain Tax provisioned in respect of AXPs held by the Sub-Fund.

Since no tax decision was made and the Capital Gain Tax was not levied against Deutsche Bank at the end of the 5 year period, Deutsche Bank has returned to the Sub-Fund the amount of the provisions withheld and retained in respect of AXPs held by the Sub-Fund (and not re-sold to Deutsche Bank) ("**DB 5-year Tax Provision Arrangement**"). The Sub-Fund will continue to make its own Capital Gain Tax provision up to and including 14 November 2014. In case a final decision is subsequently made after the 5 year period and any Capital Gain Tax is retrospectively levied by the PRC tax authority, the Sub-Fund will have to bear any such tax liabilities.

*(b) DB AXP Sale Arrangement*

Investors should also note that Deutsche Bank, made provisions of 10% in respect of the potential Capital Gain Tax liability under the AXPs up to and including 14 November 2014 and made such provisions by deducting such potential taxes from the value of the AXPs. Effective from 10 September 2009 and before a final decision is made by the PRC tax authority, Deutsche Bank has agreed with the Manager that in respect of any AXP which has been sold back to Deutsche Bank by the Sub-Fund as a result of redemption of the Units of the Sub-Fund (including any AXP which has been sold back to Deutsche Bank prior to or after 10 September 2009) but before 14 November 2014, the provision of the Capital Gain Tax liability attributable to such AXP in relation to the Sub-Fund shall be kept by Deutsche Bank for its own account in consideration of Deutsche Bank agreeing to be solely liable for all Capital Gain Tax in respect

of such AXP (“**DB AXP Sale Arrangement**”). Such provision kept by Deutsche Bank for its own account will not be returned to the Sub-Fund. In case a final decision is subsequently made in respect of that AXP and any Capital Gain Tax is retrospectively levied by the PRC tax authority, such actual tax liabilities in respect of that AXP shall be solely borne by Deutsche Bank and the Sub-Fund shall not be liable for any Capital Gain Tax in respect of that AXP.

#### *Capital Gain Provision with respect to AXPs issued by UBS*

All references to AXPs held by the Sub-Fund in the paragraphs below refer to the AXPs issued by UBS only.

Pursuant to its previous arrangement with the Sub-Fund, UBS deducted, effective from 15 December 2010, a 10% Capital Gain Tax provision in respect of the Capital Gain Tax liability incurred by the related QFII at the time the underlying A Shares were traded as a result of any unwinding or rebalancing of the AXPs on or before 14 November 2014. The Manager has requested UBS to cease to set aside Capital Gain Tax provision for any gains made by the related QFII on the AXPs from 17 November 2014 onwards until further notice.

The amount deducted pursuant to the above paragraph for Capital Gain Tax provision shall be re-paid by UBS to the Sub-Fund as soon as reasonably practicable to the extent that it is conclusively determined by the PRC tax authority or by UBS, within the 5-year period from 15 December 2010, that any part of such amount is not required to discharge any relevant Capital Gain Tax liability relating to AXPs held by the Sub-Fund.

If a final decision on Capital Gain Tax by the PRC tax authority is made within the 5-year period from 15 December 2010 that the actual applicable tax payable by UBS (or any of its affiliates) in respect of its hedge position under the AXPs held by the Sub-Fund is more than the amount of the Capital Gain Tax deducted, any shortfall shall be paid by the Sub-Fund to UBS as soon as reasonably practicable. If the actual applicable tax payable is less than the Capital Gain Tax provision of 10%, any excess shall be refunded by UBS to the Sub-Fund as soon as reasonably practicable.

In case a final decision on Capital Gain Tax is subsequently made by the PRC tax authority after the 5-year period from 15 December 2010 and any Capital Gain Tax is retrospectively levied against UBS (or any of its affiliates) in respect of its hedge position under the AXPs held by the Sub-Fund, the Sub-Fund will, upon request, pay UBS an amount equivalent to any such tax liabilities as soon as reasonably practicable.

#### **Distribution Tax**

In respect of the Distribution Tax, to date, a 10% PRC withholding tax has been levied on dividend and interest payments from PRC listed companies to foreign investors. Therefore, the Sub-Fund is subject to a Distribution Tax of 10%.

Pursuant to the PRC Tax Policy for Shanghai-Hong Kong Stock Connect Circular, dividends from A Shares, paid to Hong Kong market investors who invested in A Shares via Shanghai-Hong Kong Stock Connect, both enterprises and individuals, will continue to be subject to 10% withholding tax and which is to be withheld at source. If the recipient of the dividend is entitled to a lower tax treaty rate, application can be made to the in-charge tax bureau of the payer for a tax refund. There is no assurance that the rate of the Distribution Tax will not be changed by the PRC tax authority in the future.

## General Expenses

The costs of establishing the Sub-Fund, preparation of this Prospectus, seeking and obtaining SFC authorization as well as the SEHK listing and all initial legal and printing costs in respect of the Sub-Fund are not anticipated to exceed HK\$1,000,000. Such costs shall be amortized over the first accounting period of the Sub-Fund after consultation with the auditors of the Fund. The costs of calculating and publishing the estimated Net Asset Value of the Sub-Fund, if any, may be borne by the Sub-Fund.

## Fees Payable by Participating Dealers, Eligible Investors and Retail Investors

The fees payable by Participating Dealer(s), Eligible Investors and retail investors dealing in the Units on the SEHK are summarized in the respective tables below:

### *Participating Dealers*

#### Creation of Units

Transaction Fee	See Note 1
Service Agent fee	See Note 2
Extension fee	HK\$10,000 <sup>3</sup> per Application
Application Cancellation Fee	HK\$10,000 <sup>3</sup> per Application

#### Redemption of Units

Transaction Fee	See Note 1
Service Agent fee	See Note 2
Extension fee	HK\$10,000 <sup>3</sup> per Application
Application Cancellation Fee	HK\$10,000 <sup>3</sup> per Application

### *Eligible Investors*

#### Creation of Units

Transaction Fee	See Note 1
Extension fee	HK\$10,000 <sup>3</sup> per Application
Application Cancellation Fee	HK\$10,000 <sup>3</sup> per Application
Handling Fee	Up to 6% <sup>4</sup>

#### Redemption of Units

Transaction Fee	See Note 1
Extension fee	HK\$10,000 <sup>3</sup> per Application
Application Cancellation Fee	HK\$10,000 <sup>3</sup> per Application
Handling Fee	Up to 6% <sup>4</sup>

*Retail Investors Dealing in Units on the SEHK*

Brokerage	Market rates
Transaction levy	0.0027% <sup>5</sup>
Trading fee	0.005% <sup>6</sup>
Stamp duty	Waived

*Investors (other than the Participating Dealer(s)) creating or redeeming Units through the Participating Dealer(s) or a stockbroker*

Investors (other than the Participating Dealer(s)) submitting creation or redemption requests through the Participating Dealer(s) or a stockbroker should note that the Participating Dealer(s) or the stockbroker (as the case may be) may impose fees and charges in handling such requests. Such investors should check the relevant fees and charges with the Participating Dealer(s) or the stockbroker (as the case may be).

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<sup>1</sup> A Transaction Fee of HK\$10,000 per Application is payable by each Participating Dealer or Eligible Investor to the Manager for the benefit of the Trustee.

<sup>2</sup> A transaction fee of HK\$1,000 is payable by each Participating Dealer to the Service Agent for each book-entry deposit transaction or book-entry withdrawal transaction. A monthly reconciliation fee of HK\$5,000 is payable by the Manager to the Service Agent. For any period less than a month, the reconciliation fee is payable by the Manager on a pro-rata basis and accrues on a daily basis.

<sup>3</sup> Such fee is payable by a Participating Dealer or Eligible Investor (as the case may be) on each occasion the Manager grants the request of such Participating Dealer or Eligible Investor (as the case may be) for cancellation or extended settlement in respect of such Application.

<sup>4</sup> A handling fee of up to 6% of the Subscription Amount (in the case of Creation Applications) or up to 6% of the redemption proceeds (in the case of Redemption Applications) will be charged to an Eligible Investor. Such handling fee represents the payment of the Duties and Charges for acquiring or disposing of the relevant Securities, compensation to the Sub-Fund for any potential market risks and the servicing fee which is payable to the Manager (in its capacity as dealer for the Eligible Investors) for its use and benefit.

<sup>5</sup> Transaction levy of 0.0027% of the price of the Units, payable by the buyer and the seller.

<sup>6</sup> Trading fee of 0.005% of the price of the Units, payable by the buyer and the seller.