

**IMPORTANT:** Investments involve risks, including the total loss of your investment. Investors are advised to consider their own investment objectives and circumstances in determining the suitability of an investment in the CSOP Bloomberg China Treasury + Policy Bank Bond Index ETF (the “Sub-Fund”). An investment in the Sub-Fund may not be suitable for everyone. If you are in any doubt about the contents of this Prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional financial advice.

## **CSOP ETF Series II**

*A Hong Kong unit trust authorised under  
Section 104 of the Securities and Futures Ordinance  
(Chapter 571 of the Laws of Hong Kong)*

# **PROSPECTUS**

## **CSOP Bloomberg China Treasury + Policy Bank Bond Index ETF**

*(RMB Counter Stock Code: 83199)*

*(HKD Counter Stock Code: 3199)*

*Manager*

**CSOP Asset Management Limited**

**24 September 2021**

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

## IMPORTANT INFORMATION

**It is possible that the Sub-Fund may experience greater tracking error than typical exchange traded index funds due to, among other things, liquidity, trading, government policy and regulatory risks and the representative sampling strategy adopted by the Manager.**

This Prospectus relates to the offer in Hong Kong of Units in the Sub-Fund, a sub-fund of CSOP ETF Series II (the “Trust”), an umbrella unit trust established under Hong Kong law by a trust deed dated 20 January 2014, as amended and restated from time to time, between CSOP Asset Management Limited and HSBC Institutional Trust Services (Asia) Limited (the “Trustee”).

The Manager accepts full responsibility for the accuracy of the information contained in this Prospectus and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement misleading. The Manager also confirms that this Prospectus includes particulars given in compliance with The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Code on Unit Trusts and Mutual Funds (the “Code”) and the “Overarching Principles” of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products for the purposes of giving information with regard to the Units of the Sub-Fund. The Trustee is not responsible for the preparation of this Prospectus and shall not be held liable to any person for any information disclosed in this Prospectus, except for the information regarding the trustee and registrar itself under “The Trustee and Registrar”.

The Sub-Fund is a fund falling within Chapter 8.6 of the Code. The Trust and the Sub-Fund are authorised by the SFC in Hong Kong pursuant to Section 104 of the Securities and Futures Ordinance. The SFC takes no responsibility for the financial soundness of the Sub-Fund or for the correctness of any statements made or opinions expressed in this Prospectus. Authorisation by the SFC 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.

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

Dealings in the Units on The Stock Exchange of Hong Kong Limited (the “SEHK”) have already commenced. The Units are accepted as eligible securities by Hong Kong Securities Clearing Company Limited (“HKSCC”) for deposit, clearing and settlement in the Central Clearing and Settlement System (“CCASS”). Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Further applications may be made to list units in additional sub-funds constituted under the Trust in future on the SEHK.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong and, accordingly, the Prospectus does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Furthermore, distribution of this Prospectus (including the product key facts statement) shall not be permitted unless it is accompanied by a copy of the latest annual financial report of the Sub-Fund and, if later, its most recent interim report, which form a part of this Prospectus.

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 for the benefit of a US Person (as defined in Regulation S of 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; Accordingly, Units may not, except pursuant to an exemption from, or in a transaction not subject to, the regulatory requirements of the US Investment Company Act of 1940 be acquired by a person who is deemed to be a US Person under the 1940 Act and regulations; and
- (c) Units may not, except pursuant to a relevant exemption, be acquired or owned by, or acquired with the assets of an ERISA Plan. An ERISA Plan is defined as (i) any retirement plan subject to Title I of the United States Employee Retirement Income Securities Act of 1974, as amended; or, (ii) any individual retirement account or plan subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended.

Where the Manager becomes aware that the Units are directly or indirectly beneficially owned by any person in breach of the above restrictions, the Manager may give notice to such person requiring him to transfer such Units to a person who would not thereby be in contravention of such restrictions or to request in writing the redemption of such Units in accordance with the trust deed provided that other existing Unitholders may not be negatively impacted.

Investors should note that any amendment, addendum or replacement to this Prospectus will only be posted on the Manager's website (<http://www.csopasset.com/rmb-bond-etf>). This Prospectus (including the product key facts statement) may refer to information and materials included in websites. Such information and materials do not form part of the Prospectus (including the product key facts statement) and they have not been reviewed by the SFC or any regulatory body. Investors should refer to "Information Available on the Internet" for more details.

## DIRECTORY

*Manager and QFI Holder*  
**CSOP Asset Management Limited**  
2801-2803, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

*Investment Advisor*  
**ICBC Asset Management (Global) Company Limited**  
Unit 2507 – 10, 25/F  
ICBC Tower, 3 Garden Road  
Central, Hong Kong

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

*Participating Dealers\**  
**ABN AMRO Clearing Hong Kong Limited**  
70/F, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**China Merchants Securities (HK) Co., Limited**  
48/F, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

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

**KGI Securities (Hong Kong) Limited**  
41/F Central Plaza  
18 Harbour Road  
Wan Chai  
Hong Kong

*Custodian*  
**The Hongkong and Shanghai Banking Corporation Limited**  
1 Queen's Road Central  
Hong Kong

*PRC Custodian*  
**HSBC Bank (China) Company Limited**  
33/F, HSBC Building  
Shanghai ifc  
8 Century Avenue  
Pudong, Shanghai  
China 200120

*HKD Counter Market Makers\**  
**KGI Securities (Hong Kong) Limited**  
41/F Central Plaza  
18 Harbour Road  
Wan Chai  
Hong Kong

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

*RMB Counter Market Makers\**

**KGI Securities (Hong Kong) Limited**  
41/F Central Plaza  
18 Harbour Road  
Wan Chai  
Hong Kong

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

**Merrill Lynch Far East Limited**

55/F, Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

*Service Agent*

**HK Conversion Agency Services Limited**

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

**Nomura International (Hong Kong) Limited**

30/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*Auditors*

**PricewaterhouseCoopers**

21/F, Edinburgh Tower  
15 Queen's Road Central  
Hong Kong

**SG Securities (HK) Limited**

Level 38, Three Pacific Place  
1 Queen's Road East  
Wan Chai  
Hong Kong

*Legal Adviser to the Manager*

**Simmons & Simmons**

30/F, One Taikoo Place  
979 King's Road  
Hong Kong

**UBS Securities Hong Kong Limited**

42/F, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Yuanta Securities (Hong Kong) Company  
Limited**

23/F, Tower 1 Admiralty Centre  
18 Harcourt Road  
Admiralty  
Hong Kong

**China Industrial Securities International  
Brokerage Limited**

7/F Three Exchange Square  
8 Connaught Place Central  
Central  
Hong Kong

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

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## DEFINITIONS

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

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

“Application Unit Size” means such number of Units as specified in the Prospectus as the minimum holding or any number of Units above the minimum holding from time to time determined by the Manager, approved by the Trustee and notified to Participating Dealers.

“Business Day” means, unless the Manager and the Trustee otherwise agree, a day on which (a)(i) the SEHK is open for normal trading; and (ii) the relevant securities market on which the Index constituents are traded is open for normal trading; or (iii) if there are more than 1 such securities markets, the securities market designated by the Manager is open for normal trading, and (b) the Index is compiled and published, or such other day or days as the Manager and the Trustee may agree from time to time provided that if on any such day, the period during which the relevant securities market is open for normal trading is reduced as a result of a Number 8 Typhoon Signal or higher, Black Rainstorm warning or other similar event, such day shall not be a Business Day unless the Manager and the Trustee otherwise agree.

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

“CCDC” means China Central Depository & Clearing Co., Ltd.

“CNH” means RMB traded offshore in Hong Kong. Although CNH and RMB traded onshore in the PRC mainland (“CNY”) are the same currency, they trade at different rates as the applicable PRC mainland regulation has explicitly kept CNY onshore and CNH offshore separate, the respective supply and demand conditions lead to separate market clearing exchange rates.

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

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

- (a) any person or company beneficially owning, directly or indirectly, 20% or more of the ordinary share capital of that company or able to exercise directly or indirectly, 20% or more of the total votes in that company; or
- (b) any person or company controlled by a person who or which meets 1 or both of the descriptions given in (a); or
- (c) any member of the group of which that company forms part; or
- (d) any director or officer of that company or of any of its connected persons as defined in (a), (b) or (c).

“Creation Application” means an application by a Participating Dealer for the creation and

issue of Units in an Application Unit Size in accordance with the Operating Guidelines and terms of the Trust Deed.

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

“CSRC” means the China Securities Regulatory Commission.

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

“Dealing Deadline” in relation to any Dealing Day, shall be such time or times as the Manager may from time to time with the written approval of the Trustee determine or any particular place for submission of Application(s) by a Participating Dealer.

“Duties and Charges” means, in relation to any particular transaction or dealing, all stamp and other duties, taxes, government charges, brokerage fees, bank charges, transfer fees, registration fees, transaction levies and other duties and charges whether in connection with the constitution of the Deposited Property or the increase or decrease of the Deposited Property or the creation, issue, transfer, cancellation or redemption of Units or the acquisition or disposal of Securities or otherwise which may have become or may be payable in respect of, and whether prior to, upon or after the occasion of, such transaction or dealing and including but not limited to, in relation to an issue of Units or redemption of Units, a charge (if any) of such amount or at such rate as is determined by the Manager or the Trustee to be made for the purpose of compensating or reimbursing the Trust for the difference between (a) the prices used when valuing the Securities in the Trust Fund for the purpose of such issue or redemption of Units and (b) (in the case of an issue of Units) the prices which would be used when acquiring the same Securities if they were acquired by the Trust with the amount of cash received by the Trust upon such issue of Units and (in the case of a redemption of Units) the prices which would be used when selling the same Securities if they were sold by the Trust in order to realise the amount of cash required to be paid out of the Trust Fund upon such redemption of Units. For the avoidance of doubt, when calculating subscription and redemption prices, duties and charges may include (if applicable) any provision for bid and ask spreads (to take into account the difference between the price at which assets were valued for the purpose of calculating the Net Asset Value and the estimated price at which such assets shall be bought as a result of a subscription or sold as a result of a redemption), but may not include (if applicable) any commission payable to agents on sales and purchases of the Units or any commission, taxes, charges or costs which may have been taken into account in ascertaining the Net Asset Value of Units).

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

“Government and other Public Securities” has the meaning as set out in the Code which at the date of this Prospectus means any investment issued by, or the payment of principal and interest on, which is guaranteed by a government, or any fixed-interest investment issued by its public or local authorities or other multilateral agencies.



“HKD” means Hong Kong dollars, the lawful currency for the time being and from time to time of Hong Kong.

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

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“IFRS” means International Financial Reporting Standards.

“Index” means the Bloomberg China Treasury + Policy Bank Index.

“Index Provider” means Bloomberg Index Services Limited.

“Insolvency Event” occurs in relation to a person where (i) an order has been made or an effective resolution passed for the liquidation or bankruptcy of the person; (ii) a receiver or similar officer has been appointed in respect of the person or of any of the person’s assets or the person becomes subject to an administration order; (iii) the person enters into an arrangement with 1 or more of its creditors or is deemed to be unable to pay its debts; (iv) the person ceases or threatens to cease to carry on its business or substantially the whole of its business or makes or threatens to make any material alteration to the nature of its business; or (v) the Manager in good faith believes that any of the above is likely to occur.

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

“Listing Date” means 19 February 2014, on which the Units were first listed and from which dealings therein are permitted to take place on SEHK.

“Market” means in any part of the world:

- (a) in relation to any Security: the SEHK or such other stock exchange from time to time determined by the Manager; and
- (b) in relation to any futures contract: the Hong Kong Futures Exchange or such other futures exchange from time to time determined by the Manager,

and any over-the-counter transaction conducted in any part of the world and in relation to any Security or futures contract shall be deemed to include any bilateral agreement with a responsible firm, corporation or association in any country in any part of the world dealing in the Security or futures contract which the Manager may from time to time elect with the approval of the Trustee.

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

“Dual-Counter” means the facility by which the Units of the Sub-Fund traded in dual-counter (i.e. two counters), each counter being assigned a separate stock code on the SEHK and are accepted for deposit, clearing and settlement in CCASS in more than one eligible currency.

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

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

“Participating Dealer” means any participant of CCASS who has entered into a Participation Agreement.

“Participation Agreement” 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 issue of Units and the redemption and cancellation of Units.

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

“Policy Bank Bonds” means the RMB denominated and settled fixed-rate bonds issued by the China Development Bank, the Agricultural Development Bank of China or the Export-Import Bank of China and distributed within the PRC mainland.

“PRC” or “China” means The People’s Republic of China.

“PRC mainland” or the “Mainland China” means all the customs territories of the PRC excluding Hong Kong, Macau and Taiwan of the PRC for purpose of interpretation of this document only.

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

“PRC Participation Agreement” means the participation agreement entered into between the Trustee, the Manager, the Custodian and the PRC Custodian, as amended from time to time.

“QFI” or “QFI Holder” means a qualified foreign investor approved pursuant to the relevant PRC mainland laws and regulations, as may be promulgated and/or amended from time to time, including both qualified foreign institutional investor (QFII)(i.e. QFI to make investment in PRC mainland domestic securities and futures market by remitting foreign currencies) and/or RMB qualified foreign institutional investors (RQFII)(i.e. QFI to make investment in PRC mainland domestic securities and futures market by remitting offshore RMB), as the case may be, or, as the context may require, the QFII/RQFII regime.

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

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

“Redemption Application” means an application by a Participating Dealer for the redemption of Units in Application Unit Size in accordance with the Operating Guidelines and terms of the Trust Deed.

“Redemption Value” means, in respect of a Unit, the price per Unit at which such Unit is

redeemed, calculated in accordance with the Trust Deed.

“Registrar” means HSBC Institutional Trust Services (Asia) Limited or such other person or persons for the time being duly appointed registrar of the Sub-Fund in succession thereto under the provisions of the Trust Deed.

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

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

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

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

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

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

“Security” means any share, stock, debenture, loan stock, bond, security, future (including a futures contract), forward, derivative commercial paper, acceptance, trade bill, treasury bill, instrument or note of, or issued by or under the guarantee of, any body, whether incorporated or unincorporated, and whether listed or unlisted, or of any government or local government authority or supranational body, whether paying interest or dividends or not and whether fully-paid, partly paid or nil paid and includes (without prejudice to the generality of the foregoing):

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

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

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

“Service Agent’s Fee” means the fee which may be charged for the benefit of the Service Agent to each Participating Dealer on each Creation Application or Redemption Application made by the relevant Participating Dealer, the maximum level of which shall be determined by the Service Agent and set out in this Prospectus.

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

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

“Treasury Bonds” means the RMB denominated and settled fixed-rate bonds issued by the Ministry of Finance (中華人民共和國財政部) of the PRC mainland and distributed within the PRC mainland.

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

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

“SFO” means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

“Sub-Fund” means CSOP Bloomberg China Treasury + Policy Bank Bond Index ETF, a sub-fund of the Trust.

“Trust” means the umbrella unit trust constituted by the Trust Deed and called CSOP ETF Series II or such other name as the Manager may from time to time determine upon prior notice to the Trustee.

“Trust Deed” means the trust deed dated 20 January 2014 between the Manager and the Trustee constituting the Trust (as amended from time to time).

“Trust Fund” means all the property held by the Trust, including all Deposited Property and Income Property (both as defined in the Trust Deed), except for amounts to be distributed, in each case in accordance with the terms and provisions of the Trust Deed.

“Trustee” means HSBC Institutional Trust Services (Asia) Limited or such other person or persons for the time being duly appointed trustee or trustees hereof in succession thereto under the provisions of the Trust Deed.

“Unit” means 1 undivided share in the Sub-Fund.

“Unitholder” means a person for the time being entered on the register of holders as the holder of Units including, where the context so admits, persons jointly registered.

“Urban Investment Bonds” (城投債) means debt instruments issued by local government financing vehicles (“LGFVs”) in the PRC mainland listed bond markets and inter-bank bond market. These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investments or infrastructure projects.

“US dollar” or “US\$” or “USD” means the lawful currency for the time being and from time to time of the United States of America.

"Valuation Point" means, in respect of the Sub-Fund, the official close of trading on the Market on which the Securities constituting the Index are listed on each Dealing Day and if more than 1, the official close of trading on the last relevant Market to close or such other time or times as determined by the Manager in consultation with the Trustee from time to time provided that there shall always be a Valuation Point on each Dealing Day other than where there is a suspension of the creation and redemption of Units. c7

## DESCRIPTION OF THE SUB-FUND

*The information contained in this Prospectus has been prepared to assist potential investors in making an informed decision in relation to investing in the Sub-Fund. It contains important facts about the Trust as a whole and the Sub-Fund.*

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

The Trust is an umbrella unit trust created by a trust deed (the “Trust Deed”) dated 20 January 2014 (as amended and restated from time to time) made under Hong Kong law between CSOP Asset Management Limited (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited (the “Trustee”). The Trust may issue different classes of Units and the Trustee shall establish a separate pool of assets within the Trust (each such separate pool of assets a sub-fund) for each class of Units. The assets of a sub-fund will be invested and administered separately from the other assets of the Trust. The Manager reserves the right to establish other sub-funds and to issue further classes of Units in the future.

This Prospectus relates to one of the sub-funds, the Sub-Fund, which is an exchange traded fund (an “ETF”) authorised by the SFC.

ETFs are funds that are designed to track an index. The Units of the Sub-Fund are listed on the SEHK and trade like any other equity security listed on the SEHK. Only Participating Dealers may purchase or redeem Units directly from the Sub-Fund at Net Asset Value. All other investors may only buy and sell Units in the Sub-Fund on the SEHK.

**PRICES FOR THE SUB-FUND ON THE SEHK ARE BASED ON SECONDARY MARKET TRADING FACTORS AND MAY DEVIATE SIGNIFICANTLY FROM THE NET ASSET VALUE OF THE SUB-FUND.**

### **Key Information**

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

<b>Index</b>	Index: Bloomberg China Treasury + Policy Bank Index Launch Date: 1 January 2004 Number of constituents: 347 (29 May 2019) Total Market Capitalisation: RMB22.59 trillion (29 May 2019) Base Currency: RMB Index Provider: Bloomberg Index Services Limited Index Type: Total return index
<b>Listing Date (SEHK)</b>	19 February 2014
<b>Exchange Listing</b>	SEHK – Main Board
<b>Stock Code</b>	83199 – RMB counter 3199 – HKD counter

<b>Stock Short Names</b>	CSOP CTPBBOND –R – RMB counter CSOP CTPBBOND – HKD counter
<b>Trading Board Lot Size</b>	20 Units – RMB counter 20 Units – HKD counter
<b>Base Currency</b>	Renminbi (RMB)
<b>Trading Currencies</b>	Renminbi (RMB) – RMB counter HKD (HKD) – HKD counter
<b>Distribution Policy</b>	<p>Quarterly at the discretion of the Manager. The Manager currently intends to distribute in January, April, July and October of each year. There is no guarantee of regular distribution and, if distribution is made, the amount being distributed.</p> <p>The Manager may, at its discretion, pay dividend out of capital. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payments of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor’s original investment or from capital gains attributed to that original investment. Any distributions involving payment of dividends out of the Sub-Fund’s capital or effectively out of capital may result in an immediate reduction in the Net Asset Value per Unit. <b>All Units (whether RMB or HKD traded Units) will receive distributions in RMB only.</b><sup>#</sup></p>
<b>Creation/Redemption Policy</b>	Cash (RMB only)
<b>Application Unit Size (only Participating Dealers)</b>	Minimum 30,000 Units or such other number of Units as the Manager may determine and approved by the Trustee

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

<b>Management Fee</b>	0.28% p.a. of Net Asset Value calculated daily
<b>Investment Strategy</b>	Representative sampling strategy (refer to the “Investment Strategy” section below)
<b>Financial Year End</b>	31 December
<b>Market Makers** (HKD Counter)</b>	As at the date of this Prospectus, KGI Asia Limited and Optiver Trading Hong Kong Limited
<b>Market Makers** (RMB Counter)</b>	As at the date of this Prospectus, KGI Asia Limited and Optiver Trading Hong Kong Limited
<b>Participating Dealers</b>	As at the date of this Prospectus, ABN AMRO Clearing Hong Kong Limited, China Merchants Securities (HK) Co., Limited, Goldman Sachs (Asia) Securities Limited, KGI Asia Limited, Merrill Lynch Far East Limited, Nomura International (Hong Kong) Limited, SG Securities (HK) Limited, UBS Securities Hong Kong Limited, Yuanta Securities (Hong Kong) Company Limited and China Industrial Securities International Brokerage Limited. For an updated list, please refer to <a href="http://www.csopasset.com/rmb-bond-etf">http://www.csopasset.com/rmb-bond-etf</a>
<b>Website</b>	<a href="http://www.csopasset.com/rmb-bond-etf">http://www.csopasset.com/rmb-bond-etf</a>

\*\* For an updated list, please refer to [http://www.hkex.com.hk/eng/etfrc/SMMList/SMM\\_List.htm](http://www.hkex.com.hk/eng/etfrc/SMMList/SMM_List.htm)

### **Investment Objective**

The investment objective of the Sub-Fund is to provide investment results that, before deduction of fees and expenses, closely correspond to the performance of the Index.

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

The Index of the Sub-Fund may be changed by prior approval of the SFC and notice to Unitholders.

### **Investment Strategy**

The Sub-Fund adopts a representative sampling strategy to achieve its investment objective.

A representative sampling strategy involves investing in a representative sample of Securities that collectively has an investment profile that reflects the profile of the Index.

It is intended that the Sub-Fund will invest up to 100% of its Net Asset Value in the Treasury Bonds and Policy Bank Bonds included in the Index through the QFI status of the Manager and/or the Bond Connect (as described below).

As the Index comprises only Treasury Bonds and Policy Bank Bonds, there is no credit rating requirement for inclusion in the Index. The credit rating of the PRC mainland government, China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China as the issuers of Treasury Bonds and Policy Bank Bonds are A+ by Standard & Poor’s and A1 by Moody’s.

The Sub-Fund may or may not hold all of the Treasury Bonds and Policy Bank Bonds that are included



in the Index, and may hold Treasury Bonds and Policy Bank Bonds which are not included in the Index, provided that these bonds collectively feature a high correlation with the Index.

The Sub-Fund currently intends to invest in bonds via the inter-bank bond market, Shanghai Stock Exchange and/or Shenzhen Stock Exchange. Such trades are on delivery versus payment basis i.e. the Sub-Fund will only pay the counterparty upon receipt of the securities.

The Sub-Fund's portfolio will be rebalanced monthly or upon each creation or redemption.

The Manager will consider the liquidity, maturity date and years to maturity of the bonds when adopting the representative sampling strategy. The Manager believes that a representative sampling strategy is more appropriate in view of the comparative illiquidity of certain Securities in the Index which may be experienced with certain Securities comprised in the Index.

The Manager may also invest up to 10% of the Net Asset Value of the Sub-Fund in money market funds which are either authorised by the SFC or eligible schemes as determined by the SFC. The Sub-Fund will not seek to have any exposure to equity or convertible securities.

The investment strategy of the Sub-Fund is subject to the investment and borrowing restrictions set out in Schedule 1. In particular, Chapters 7.4 and 7.5 of the Code applies to the Sub-Fund such that:

- (a) Notwithstanding Chapters 7.1, 7.1A and 7.2 of the Code, up to 30% of the Net Asset Value of the Sub-Fund may be invested in Government and other Public Securities of the same issue; and
- (b) Subject to Chapter 7.4 of the Code, the Sub-Fund may invest all of its assets in Government and other Public Securities in at least 6 different issues.

There is no current intention for the Sub-Fund to:

- (a) invest in any financial derivative instruments for hedging or non-hedging (i.e. investment) purposes;
- (b) invest in Urban Investment Bonds (城投債); or
- (c) invest in structured products or instruments, structured deposits, asset backed securities, asset backed commercial papers and mortgage back securities; or
- (d) engage in securities lending, sale and repurchase transactions and reverse repurchase transactions, but this may change in light of market circumstances and where the Sub-Fund does engage in these types of transactions, prior approval shall be obtained from the SFC and no less than 1 month's prior notice will be given to the Unitholders.

Prior approval of the SFC will be sought and not less than one month's prior notice will be given to the Unitholders in the event the Manager wishes to change the investment strategy of the Sub-Fund unless such changes satisfy the overriding principles and requirements prescribed by the SFC from time to time and be considered as immaterial changes.

## Investment and Borrowing Restrictions

The Sub-Fund must comply with the investment and borrowing restrictions as summarised in Schedule 1 of this Prospectus (which includes a summary of the investment restrictions set out in the Trust Deed).

### What is the QFI Regime?

The QFI regime is governed by rules and regulations as promulgated by the Mainland Chinese authorities, such as the CSRC, the SAFE and the PBOC. Such rules and regulations may be amended from time to time and include (but are not limited to):

- (i) the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors jointly issued by the CSRC, the PBOC and the SAFE on 25 September 2020 and effective from 1 November 2020 (《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》);
- (ii) the Provisions on Issues Concerning the Implementation of the Measures for the Administration of Domestic Securities and Futures Investment by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors issued by the CSRC on 25 September 2020 and effective from 1 November 2020 (關於實施《合格境外機構投資者和人民幣合格境外機構投資者境內證券期貨投資管理辦法》有關問題的規定);
- (iii) the “Regulations on Funds of Domestic Securities and Futures Investment by Foreign Institutional Investors” issued by the PBOC and the SAFE on 7 May 2020 and effective from 6 June 2020 (《境外機構投資者境內證券期貨投資資金管理規定》); and
- (iv) any other applicable regulations promulgated by the relevant authorities. (collectively, “QFI Regulations”)

Based on the above prevailing QFI Regulations, the Qualified Foreign Institutional Investors (QFII) regime and RMB Qualified Foreign Institutional Investors (RQFII) regime have been merged and been regulated by the same set of regulations, and the previously separate requirements for QFII and RQFII qualifications are unified. A foreign institutional investor outside the PRC mainland may apply to the CSRC for the QFI License, while there is no need for a foreign institutional investor having held either a QFII or RQFII license to re-apply for the QFI license. Since the Manager has been granted with QFII license and RQFII license by CSRC, it shall be regarded as a QFI, and may freely select to use funds in foreign currencies which can be traded on CFETS (defined below) and/or offshore RMB funds to be remitted in to carry out PRC mainland domestic securities and futures investment as long as separate cash accounts for receiving such cash are duly opened.

For remittance of foreign currencies, the Manager (as a QFI Holder) shall open foreign exchange account(s) for the remitted funds in foreign currencies and a corresponding RMB special deposit account for each relevant foreign exchange account; for remittance of offshore RMB funds, the Manager (as a QFI Holder) shall open RMB special deposit account(s) for the remitted funds in offshore RMB. QFI Holders are not subject to investment quota limits.

Under current regulations in the PRC mainland, foreign investors can invest only in the domestic securities and/or futures market through certain foreign institutional investors that have obtained status as a QFI from the CSRC to remit foreign freely convertible currencies and RMB into the PRC mainland for the purpose of investing in the PRC mainland’s domestic securities and/or futures markets.

The Sub-Fund will obtain exposure to securities issued within the PRC mainland through the QFI

status of the Manager. The Manager has obtained QFI status in the PRC mainland.

All of the Sub-Fund's assets in the PRC mainland acquired through or in connection with the QFI status of the Manager (including onshore PRC cash deposits, its onshore PRC Government and Policy Bank Bonds portfolio and other PRC onshore investments) will be held by the PRC Custodian in accordance with the terms of the PRC Custody Agreement and PRC Participation Agreement. Securities account(s) has/have been opened with the relevant depository(ies) in the joint names of the Manager (as the QFI holder) and the Sub-Fund. An RMB special deposit account has also been established and maintained with the PRC Custodian in the joint names of the Manager (as the QFI holder) and the Sub-Fund. The PRC Custodian shall, in turn, have a cash clearing account with the relevant depository(ies) for trade settlement according to applicable regulations.

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

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

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

There are specific risks associated with the QFI regime and investors' attention is drawn to the risk factors under "Risks related to the QFI regime" in the section on "Risk Factors" below.

#### **What is Bond Connect?**

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

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

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

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

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

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

## The Offshore RMB Market

### *What Led to RMB Internationalisation?*

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

Over the past two decades, the PRC mainland's economy grew rapidly at an average annual rate of 9.8% in real terms. This enables it to overtake Japan to become the second largest economy and trading country in the world. The International Monetary Fund has projected that the PRC mainland will contribute to more than one-third of global growth by 2015. As the PRC mainland's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

### *Accelerating the Pace of RMB Internationalisation*

The PRC mainland has been taking gradual steps to increase the use of RMB outside its borders by setting up various pilot programmes in Hong Kong and neighbouring areas in recent years. For instance, banks in Hong Kong were the first permitted to provide RMB deposits, exchange, remittance and credit card services to personal customers in 2004. Further relaxation occurred in 2007 when the authorities allowed PRC mainland financial institutions to issue RMB bonds in Hong Kong. As of the end of December 2017, there are 137 banks in Hong Kong engaging in RMB business, with RMB deposits amounting to about RMB599.14 billion, as compared to just RMB63 billion in 2009.

**Chart 1. RMB deposits in Hong Kong**

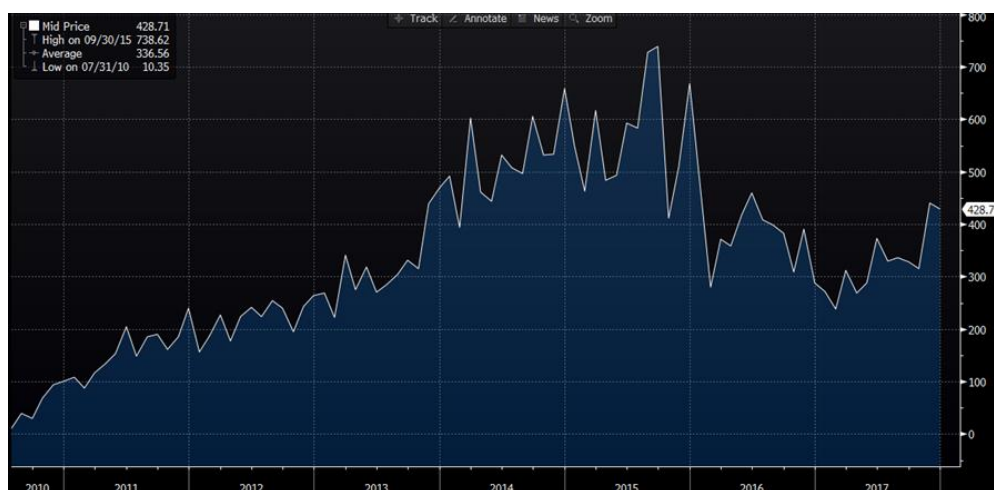


Data source: Bloomberg as of 31 December 2017

The pace of RMB internationalisation has accelerated since 2009 when the PRC mainland authorities permitted cross-border trade between Hong Kong/Macau and Shanghai/4 Guangdong cities, and between ASEAN and Yunnan/Guangxi, to be settled in RMB. In December

2017, the arrangement was expanded to 20 provinces/municipalities on the PRC mainland and to all countries/ regions overseas. In the year of 2017, nearly RMB3,926.45 billion worth of cross-border trade was settled in Hong Kong using RMB.

**Chart 2. Remittances for RMB cross-border trade settlement**



Data source: Bloomberg as of 31 December 2017

#### *Onshore versus Offshore RMB Market*

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

Both onshore and offshore RMB are the same currency but are traded in different markets. Since the 2 RMB markets operate independently where the flow between them is highly restricted, onshore and offshore RMB are traded at different rates and their movement may not be in the same direction. Due to the strong demand for offshore RMB, CNH used to be traded at a premium to onshore RMB, although occasional discount may also be observed. The relative strength of onshore and offshore RMB may change significantly, and such change may occur within a very short period of time.

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

There have been talks on the potential convergence of the 2 RMB markets but that is believed to be driven by political decisions rather than just economics. It is widely expected that the onshore and offshore RMB markets would remain 2 segregated, but highly related, markets for the next few years.



### *Recent Measures*

More measures to relax the conduct of offshore RMB business were announced in 2010. On 19 July 2010, with respect to the lifting of restrictions on interbank transfer of RMB funds and, as well as granting permission for companies in Hong Kong to exchange foreign currencies for RMB without limit. One month later, the PRC mainland authorities announced the partial opening up of the PRC mainland's interbank bond market for foreign central banks, RMB clearing banks in Hong Kong and Macau and other foreign banks participating in the RMB offshore settlement programme.

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

### *RMB Internationalisation is a Long-term Goal*

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

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

### **Overview of PRC mainland Bond Market**

The PRC mainland's domestic bond market primarily consists of two markets: the inter-bank bond market and the exchange-traded bond market. Despite some interconnections amongst them, these markets are differentiated by investor segmentation, product segmentation and regulatory separation.

Currently, the inter-bank bond market is much larger in terms of trading volume and is relatively more liquid than the exchange-traded bond market. With its dominant market position, the inter-bank bond market accounts for more than 85% of the total bonds outstanding as of 31 December 2018.

Some key information on the two markets is set out below.

*Key Information on these markets*

	<b>Inter-bank bond market</b>	<b>Exchange-traded bond market</b>
Market size	Approximately RMB67.5 trillion, as at 31 December 2018 (source: CCDC and Shanghai Clearing House)	Approximately RMB9 trillion, as at 31 December 2018 (source: CCDC and Shanghai Clearing House)
Major types of products traded	Treasury Bonds and Policy Bank Bonds, bonds issued by PBOC, financial bonds, enterprise bonds, commercial papers, medium term notes, local government bonds and asset-backed securities	Treasury bonds, local government bonds, enterprise bonds, corporate bonds and convertible bonds
Key market participants	Commercial banks, insurance companies, mutual funds, security companies, foreign investors with QFI status or via CIBM and Bond Connect	Commercial banks, insurance companies, mutual funds, security companies, foreign investors with QFII or RQFII status or via CIBM, corporations and individual investors
Trading hours	9:00 a.m. to 12:00 p.m. and 1:30 p.m. to 4:30 p.m. (Hong Kong time)	9:00 a.m. to 11:00 a.m. and 1:00 p.m. to 3:00 p.m. (Hong Kong time)
Trading and settlement mechanism	Trading mechanism: a quote-driven over-the-counter market between institutional investors  Settlement mechanism: primarily delivery versus payment (“DVP”), on either a T+0 or T+1 settlement cycle	Trading an electronic automatic matching system where securities are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange  Settlement mechanism: clearing and settlement are through the China Securities Depository and Clearing Co., Ltd (中國證券登記結算有限責任公司) (the “CSDCC”) on T+1 settlement cycle
Regulator	PBOC	CSRC
Counterparty with whom investors will trade	The trading counterparty (i.e. the other market participants)	CSDCC, which acts as the central counterparty to all securities transactions on the Shanghai and Shenzhen stock exchanges



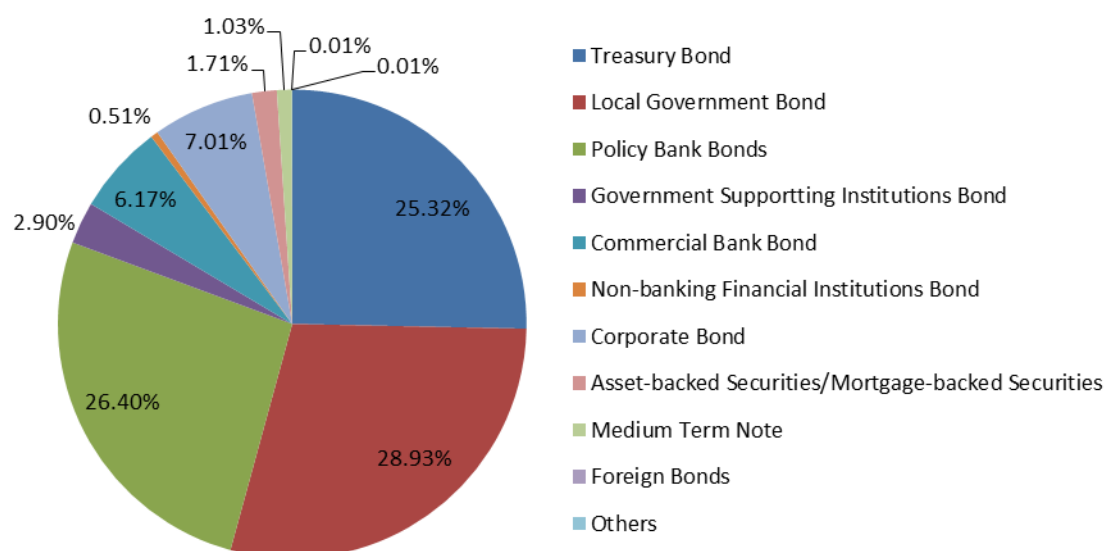
	<b>Inter-bank bond market</b>	<b>Exchange-traded bond market</b>
Central clearing	CCDC (中央國債登記結算公司), Shanghai Clearing House	CSDCC
Liquidity	Total trading volume in the 12 months to 31 December 2018 was approximately RMB149.8 trillion (source: CCDC)	Total trading volume in the 12 months to 31 December 2018 was approximately RMB1.7 trillion (source: CCDC)
Associated risks	Interest rate risk, credit risk, counterparty risk	Interest rate risk, credit risk, liquidity risk
Minimum rating requirements	No requirement  However, market participants typically require a rating of at least BBB given by a local credit rating agency.	No requirement  However, if upon listing a corporate bond or enterprise bond does not have a credit rating of at least “AA” given by a local credit rating agency, then such bond can only be traded on the fixed income electronic platform of the relevant exchange (固定收益證券綜合電子平臺), which is open only to institutional investors. Bonds that do not satisfy this minimum requirement cannot be traded via the quote-driven platform (競價交易系統), which is open to all investors, including retail investors.

	<b>Inter-bank bond market</b>	<b>Exchange-traded bond market</b>
Types of debt instruments commonly seen and the issuers	<p>Treasury Bonds: issued by Ministry of Finance of the PRC mainland</p> <p>Bonds issued by PBOC</p> <p>Policy Bank Bonds: issued by PRC mainland policy banks (China Development Bank, Agricultural Development Bank of China and Export-Import Bank of China)</p> <p>Financial bonds: issued by commercial banks and other financial institutions</p> <p>Non-financial credit bonds: issued by state-owned or state-held entities and corporates</p> <p>Local government bonds: issued by local provinces or cities</p> <p>Foreign bonds: issued by</p>	<p>Treasury bonds: issued by Ministry of Finance</p> <p>Local government bonds: issued by local provinces or cities</p> <p>Enterprise bonds: issued by government-related, state-owned or state-held entities</p> <p>Corporate bonds: issued by listed companies</p> <p>Convertible bonds: issued by listed companies</p>

As at the end of July 2013, the inter-bank bond market had a diversified investor base with over 10,000 members, approximately 5,000 of which have direct access to the centralised trading system, which covers all types of financial institutions such as commercial banks, securities firms, fund houses, insurance companies and various kinds of investment products like mutual funds and pension funds. The remaining approximately 5,000 members, which include small financial institutions and non-financial enterprises, gain access to the market through settlement agencies.

The major types of bonds available in the PRC mainland inter-bank bond market can be grouped into six broad categories: (i) Treasury Bonds issued by Ministry of Finance of the PRC mainland; (ii) bonds issued by the PBOC; (iii) Policy bank bonds issued by policy banks, including China Development Bank, Export-Import Bank of China and Agricultural Development Bank of China; (iv) Financial bonds, including commercial bank bonds and non-bank financial institution bonds; (v) Non-financial credit bonds issued by non-financial institution corporates, including enterprise bonds, commercial papers (“CP”), and medium-term notes (“MTN”); (vi) other types of bonds such as local government bonds issued by provincial or city government, government supporting institutional bonds issued by Central Huijin Investment Limited, China Railway Corporation and Ministry of Railway, foreign bonds issued by foreign entities, asset-backed securities and mortgage-backed securities, etc.

The below graph illustrates the breakdown of various types of instruments in the inter-bank bond market (sources: CCDC and Shanghai Clearing House as of 31 December 2017):



The yields of major debt instruments in the inter-bank bond market are as follows (the below yields are general averages for reference only as at 31 December 2017) (source: CCDC):

Years to Maturity	PRC mainland Treasury	China Development Bank Bonds
1	3.79%	4.68%
2	3.78%	4.75%
3	3.78%	4.79%
5	3.84%	4.81%
7	3.90%	4.98%
10	3.88%	4.82%
15	4.18%	5.04%
20	4.22%	5.16%
30	4.37%	5.17%

Years to Maturity	Corporate Bonds		
	AAA <sup>1</sup>	AA+ <sup>1</sup>	AA <sup>1</sup>
1	5.22%	5.50%	5.70%
2	5.24%	5.49%	5.69%
3	5.29%	5.54%	5.74%
5	5.42%	5.67%	5.87%
7	5.44%	5.75%	6.05%
10	5.45%	5.76%	6.06%
15	5.51%	5.82%	6.12%
20	5.61%	5.92%	6.22%
30	5.63%	5.94%	6.24%

Investors should note that the yields as set out in the above tables are not indicative of the expected return of the Sub-Fund. There is no assurance that the Sub-Fund's return will correlate with the expected yield of its underlying investment or the yield of the Index.

### Overview of Treasury Bond

Treasury Bond is debt instrument issued by Ministry of Finance of the PRC mainland. The outstanding amount of Treasury Bonds in the inter-bank bond market is over RMB14,362 billion, comprising approximately 25% of the inter-bank bond market as at 31 December 2018. It has a wide range of tenors and is one of the most liquid types of bonds in the secondary market. For the year of 2017, the daily average trading volume of Treasury Bonds is approximately RMB52.5 billion and the daily average number of trades is about 530. With the approval of the National People's Congress, Treasury Bonds are backed by the PRC mainland sovereign's credit. No credit rating is given for onshore Treasury Bonds since these bonds have the same credit rating of the PRC mainland sovereign, which is A+ by Standard & Poor's and A1 by Moody's.

There are two types of Treasury Bonds: Book-entry Treasury Bonds (記賬式國債) and Electronic Savings Treasury Bonds (電子式儲蓄國債). Some key information on these types of Treasury Bonds is set out below.

<sup>1</sup> The sources of credit rating include Dagong Global, China Cheng Xin International, China Lianhe and Shanghai Brilliance Credit Rating. Investors may obtain more information on rating methodologies from the websites of the above PRC mainland local credit agencies. Investors should, however, exercise caution when referring to PRC mainland local credit ratings of bonds, as the local credit ratings industry in the PRC mainland is still in an early development stage. Due to the lack of historical data and slow response to credit events, the rating methodologies used by PRC mainland local credit agencies, whilst they may in general be similar to those adopted by international credit rating agencies, may be driven by domestic factors rather than more quantitative methods.

	<b>Book-entry Treasury Bonds</b>	<b>Electronic Savings Treasury Bonds</b>
Market capitalisation	Approximately RMB13.6 trillion, as at 31 December 2018 (source: CCDC)	Approximately RMB0.7 trillion, as at 31 December 2018 (source: CCDC)
Bonds issuer	Ministry of Finance, PRC mainland	Ministry of Finance, PRC mainland
Key market participants	Institutional investors	Retail investors
Major tenors	From 3 months to 50 years	3 years and 5 years
Trading platform	Inter-bank market, exchange market	Retail bank counters
Liquidity	Good	Moderate
Custodian	CCDC, CSDCC	CCDC

As illustrated in the above table, the target investors of Electronic Savings Treasury Bonds, which can be purchased at retail bank counters are retail investors, whereas Book-entry Treasury Bonds are targeted at institutional market participants, including the Sub-Fund.

Book-entry Treasury Bonds are offered in the primary market by using the PBOC tender system where authorised participants including commercial banks, securities houses and insurance companies can participate and acquire an allocation. Regarding the secondary market, security houses can transfer some of their primary market inventory to stock exchanges for secondary market trading. However, the majority of the secondary liquidity is offered by the inter-bank bond market where different participants transact on an over-the-counter basis. Buyers and sellers can transact directly with agreed price and volume.

Market makers facilitate the secondary market trading by actively quoting bid and offer prices of bonds and acting as counterparties to market participants, while brokers perform the same role by actively providing bonds quotations to proactively match those from potential buyers and sellers.

Trades can also be done without brokers. Investors can approach potential counterparties through their traders and do trades directly with their counterparties.

### **Overview of Policy Bank Bond**

“Policy banks” refers to those financial institutions which were established by the Policy Banks Law of 1994 to implement the state policies for financing state-invested projects, promoting industries, and supporting economic and trade development. There are three policy banks: the China Development Bank (“CDB”), the Export- Import Bank of China (“Chexim”) and the Agricultural Development Bank of China (“ADBC”). All of them are wholly owned by the state and under the direct jurisdiction of the State Council of the PRC mainland, meanwhile CDB specialises in large infrastructure financing, including most of the funding for Shanghai Pudong International Airport and the Three Gorges Dam; Chexim focuses on trade financing and government concessional loans, and ADBC provides funds for agricultural development projects in rural areas.

All three policy banks fund themselves mainly through bond issuances in the PRC mainland domestic market. As of 31 December 2018, the value of outstanding bonds issued by policy banks was approximately RMB14.5 trillion, comprising approximately 25% of total interbank bond market. Among the three policy banks, CDB has RMB8,147 billion outstanding, Chexim has RMB2,397 billion and ADBC has RMB3,937 billion. For the year of 2017, the daily average trading

volume of Policy Bank Bonds was approximately RMB 134 billion and the daily average number of trades is about 1,798. Policy bank bonds have the same credit ratings of the relevant policy banks. All three policy banks have the credit rating as the PRC mainland sovereign, which are A+ by Standard & Poor's and A1 by Moody's. In the PRC mainland market, Treasury Bonds, Policy Bank Bonds, as well as PBOC bills are called interest rate bonds, by reference to the low risk of credit risk or default.

<b>Policy Bank Bond Issuer</b>	<b>China Development Bank</b>	<b>The Export-Import Bank of China</b>	<b>Agricultural Development Bank of China</b>
Market capitalisation	Approximately RMB 8.15 trillion, as of 31 December 2018 (source: ChinaBond)	Approximately RMB2.40 trillion, as of 31 December 2018 (source: ChinaBond)	Approximately RMB3.97 trillion, as of 31 December 2018 (source: ChinaBond)
Key market participants	Institutional investors/Retail investors	Institutional investors	Institutional investors
Major tenors	From 1 year to 50 years	6 months and 10 years	6 months and 10 years
Trading platform	Inter-bank market, exchange market	Inter-bank market	Inter-bank market
Liquidity	Good	Good	Good
Custodian Format	Book-entry bond	Book-entry bond	Book-entry bond
Custodian	CCDC, CSDCC	CCDC	CCDC

Similar to Treasury Bonds, Policy Banks Bonds are offered in the primary market by using the PBOC tender system. The main tenor of Policy Bank Bond issuance is from 1 year to 10 years, although there are also shorter-than-one-year bills offer and longer-than-ten-year long bond offer. Unlike Treasury Bonds, the Policy Bank Bonds only exist in book-entry format and are for institutional investors only. Most of them are traded in the inter-bank bond market and custodian under CCDC. The main investors of Policy Bank Bonds are commercial banks, funds, insurance companies and securities houses.

Market makers facilitate the secondary market trading by actively quoting bid and offer prices of bonds and acting as counterparties to market participants, while brokers perform the same role by actively providing bonds quotations to proactively match those from potential buyers and sellers. Trades can also be done without brokers. Investors can approach potential counterparties through their traders and do trades directly with their counterparties.

### **Tracking Error**

An index is a theoretical financial calculation based on the performance of particular components that make up the index, whereas the Sub-Fund is an actual investment portfolio. The performance of the Sub-Fund and its Index may be different due to transaction costs, asset valuations, corporate actions (such as mergers and spin-offs), timing variances and differences between the Sub-Fund's portfolio and the Index. These differences may result for example from legal restrictions affecting the ability of the Sub-Fund to purchase or dispose of Securities or the employment of a representative sampling strategy.

The use of a representative sampling strategy can be expected to result in greater tracking error than a full replication strategy. The consequences of tracking error are described in more detail in "Tracking Error Risk".

### **Index Licence Agreement**

The Manager has entered into a licence agreement with Bloomberg Index Services Limited (the “Index Provider”). The term of the licence agreement commenced on 1 March 2019 and should remain in full force and effect for 2 years. The licence agreement should renew automatically for 1 year terms, subject to the terms of the licence agreement.

Investors’ attention is drawn to “Risks Associated with the Index”.

## **Index**

### *Bloomberg China Treasury + Policy Bank Index (the “Index”)*

The Index is a total return index (meaning that the performance of the Index is performance of the index constituents on the basis that any dividends or distributions are reinvested) and a free float adjusted market capitalisation weighted index that is sponsored by Bloomberg Index Services Limited. The Index Provider is responsible for the calculation and dissemination of the Index. The Index aims to reflect the performance of the fixed rate onshore RMB (“CNY”)-denominated Treasury Bonds and Policy Bank Bonds listed on the PRC mainland inter-bank bond market.

The inception date of the Index was 1 January 2004 and the Index had a base level of 100 on 31 December 2003. As at 29 May 2019, the Index had a market capitalisation of RMB22.59 trillion and 347 constituents.

The Manager (and its Connected Persons) is independent of the Index Provider.

### Eligible Securities

All constituent securities of the Bloomberg China Aggregate Index will be eligible for constituent selection of the Index. Constituent securities of the Bloomberg China Aggregate Index are CNY-denominated debt securities listed on the PRC mainland inter-bank bond market that fulfils the following criteria:

Currency:	The principal and interest of the bond must be denominated in RMB.
Listing:	The bond must be listed in the PRC mainland inter-bank bond market.
Amount outstanding:	The bond must have a par value of at least RMB5 billion for treasury and policy bank debt securities (including policy banks)
Quality:	The bond must not be in default.
Maturity:	The bond must have at least one year until final maturity.
Coupon:	The bond must carry a fixed rate coupon.
Excluded types of Securities:	<ul style="list-style-type: none"><li>• Floating-rate</li><li>• Zero coupon</li><li>• Convertibles</li><li>• Inflation-linked</li><li>• Derivatives</li><li>• Structured products</li><li>• Securitised</li><li>• Warrants</li><li>• Private placements</li><li>• Retail bonds</li></ul>

- Bonds issued on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
- Special bonds issued by Ministry of Finance

### Constituent Selection

All securities that are eligible for constituent selection and are Treasury Bonds and Policy Bank Bonds will be selected as constituents of the Index.

The number of constituent securities is variable and there is no limit to the number of constituents.

### Index Review and Constituent Changes

The constituents of the Index are reviewed and adjusted each month. At monthly rebalancing, any issue whose eligibility status has changed since the previous month-end will either “exit” or “enter” the index. Bonds that meet all published index inclusion rules and eligibility criteria at the beginning of a given month will remain in the index for purposes of return calculations until the following month-end, when index composition is next reset.

For new issuances, eligible bonds issued or announced, but not necessarily settled, on or before the month-end rebalancing date, qualify for inclusion in the following month’s index if required security reference information and pricing are readily available.

### Index Calculation

The index value is calculated by adding 100 to the since inception total return (“SITR”) and is used to calculate total returns over any given time period where index values are available. The formula for the calculation of index value is as follows:

$$\text{Index Value} = \text{SITR} + 100$$

The SITR is a compounded return linking historical index cumulative monthly returns and the current month-to-date return. This approach assumes that the index is always fully invested in the new Returns Universe after each monthly rebalancing and that any accumulated cash from the previous month is reinvested pro rata into the new universe. The SITR of the Index is calculated as:

$$\text{SITR} = [(100 + \text{SITR}_{\text{Beginning of month}}) \times (1 + \text{Total Return}_{\text{Month-to-date}})] - 100$$

Where:

- Total Return is calculated as:

$$\text{Total Return} = \sum (\text{Bond Weight} \times \text{Bond Return})$$

- Bond Weight: % security contribution to Returns Universe using market value weights or other index weighting schemes.
- Bond Return: bond-level total return (taking into account returns derived from price changes, interest payment and payments of principal) since last index rebalancing.

### Pricing

The Securities are priced on a daily basis by Bloomberg’s evaluated pricing service, Bloomberg Valuation Service (“BVAL”). Securities will be priced at 5 p.m. (Shanghai Time). If the last business day of the month is a public holiday, prices from the previous business day will be used. For index purposes, securities are assumed to settle on the next calendar day (T+1). At month-end, settlement is assumed to be on the first calendar day of the following month, even if the last business day is not the last day of the month.



Bonds are priced on the bid side. Bid pricing values a bond at the level where an investor would be able to sell it as of the index pricing date. Daily price moves for each security are analysed by the index pricing team of the Index Provider.

The quality of index pricing is kept high by (1) using comparisons of a broad range of sources, including third-parties, centralized trade reporting such as TRACE, and available market makers and/or (2) employing a variety of statistical techniques applied on day-to-day movements and point-in-time levels using tolerance bands set at the issuer, sector, quality and maturity levels.

Possible outliers resulting from the verification process are resolved by the index team dedicated to pricing validation. Index users may also challenge price levels, which are then reviewed by the pricing team. If a discrepancy arises, prices may be adjusted on a going forward basis by the primary pricing source.

### **Index constituents and additional information**

You can obtain the most updated list of the constituents of the Index, weightings of the constituents and additional information concerning the Index (including index fact sheets, methodology, end of day index levels and index performance) from the website of the Index Provider at (<https://www.bloomberg.com/professional/product/indices/bloomberg-barclays-indices/#/ucits>) (this website has not been reviewed by the SFC). The Index (which is maintained by the Index Provider) is calculated and disseminated in RMB and is available in real time globally via information vendors Bloomberg and Reuters. The end of day index is available on the website of the Index Provider.

### **Distribution Policy**

The Manager intends to distribute income to Unitholders quarterly in January, April, July and October having regard to the Sub-Fund's net income after fees and costs. The Manager will make an announcement prior to any distribution in respect of the relevant distribution amount in RMB only. Each Unitholder will receive distributions in RMB only (whether holding RMB traded Units or HKD traded Units).

The Manager may, at its discretion, pay dividend out of capital. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of capital. Payments of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from gains attributed to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of capital may result in an immediate reduction in the Net Asset Value per Unit.

### **Further Information**

Further information in relation to the Sub-Fund (including details of distribution policy and its Net Asset Value) and the Index is available at the Manager's website (<http://www.csopasset.com/rmb-bond-etf>) (the contents of which have not been reviewed by the SFC). Investors should refer to "Information Available on the Internet" for more details. Unitholders are encouraged to refer to the information available on the Manager's website on a regular basis.

## OFFERING PHASES

### After Listing

The After Listing phase commenced on the Listing Date and continues until the Sub-Fund is terminated.

You can acquire or dispose the Units in either of the following 2 ways:

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

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

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

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

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

### *Creations and Redemptions through Participating Dealers*

Units will continue to be created by cash creation (in RMB only) and redeemed by cash redemption (in RMB only) at the Issue Price and Redemption Value respectively through Participating Dealers in Application Unit Size. The Application Unit Size is set out in the “Summary” section.

To be dealt with on a Dealing Day, the relevant Participating Dealer must submit the Creation Applications to the Trustee (with a copy to the Manager) before the Dealing Deadline on the relevant Dealing Day. If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. Participating Dealers are under no obligation to create or redeem generally or for their clients and may charge their clients such fee or fees as such Participating Dealers determine.

Settlement in cash for subscribing Units is due by such time as agreed in the Operating Guidelines on the relevant Dealing Day or for redeeming of Units is due 3 Business Days after the Dealing Day, unless the Manager agrees with the relevant Participating Dealer to accept later settlement generally or in any particular case. Notwithstanding the Dual-Counter for Units, all settlement for creation and redemption of Units shall be in RMB only.

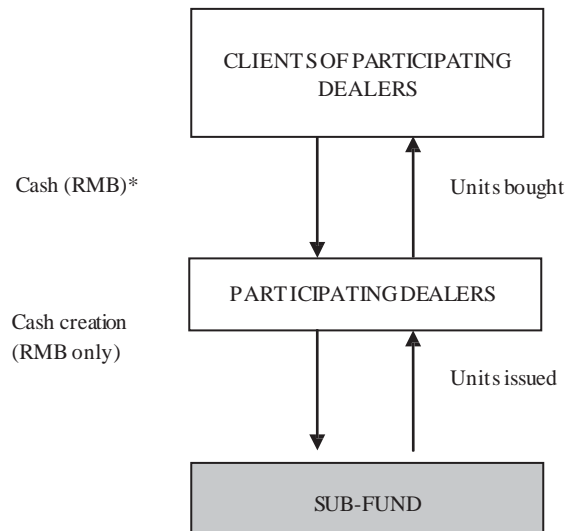
After Listing, all Units are registered in the name of HKSCC Nominees Limited on the

register of the Trust. The register of the Trust is the evidence of ownership of Units. The beneficial interests in Units of any client of the Participating Dealers shall be established through such client's account with the relevant Participating Dealer or with any other CCASS participants if the client is buying from the secondary market.

## Diagrammatic Illustration of Investment in the Sub-Fund

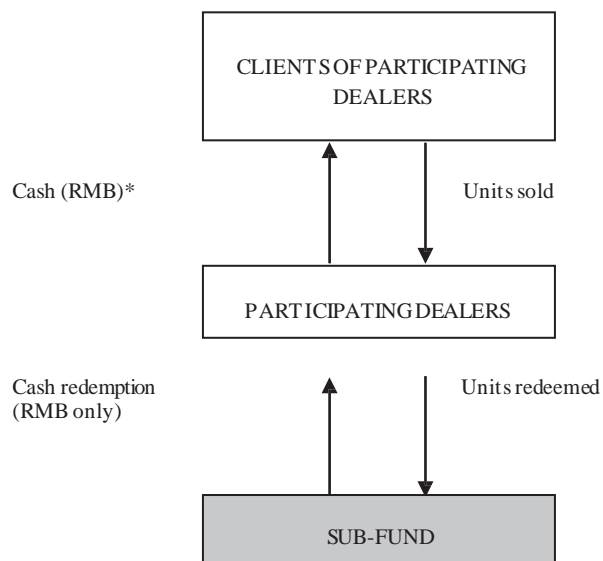
The diagrams below illustrate the issue or redemption and the buying or selling of Units:

(a) Issue and buying of Units in the primary market –After listing



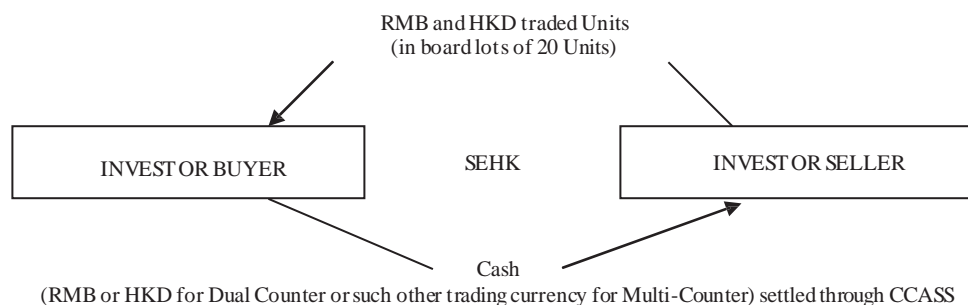
\* Clients of the Participating Dealers may agree with the Participating Dealers settlement in another currency.

(b) Redemption and sale of Units in the primary market – After listing



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

(c) Buying or selling of Units in the secondary market on the SEHK – After listing



### Summary of Offering Methods and Related fees

#### *After Listing*

Method of Acquisition or Disposal of	Minimum Number of Units (or such other number of Units as determined by the Manager and approved by the Trustee)	Channel	Available to	Consideration, Fees and Charges*
Purchase and sale in cash through brokers on the SEHK (secondary market) in HKD, or in RMB	Board lot of 20 Units for HKD traded Units and 20 Units for RMB traded Units	On the SEHK	Any investor	Market price of Units on SEHK (RMB for RMB traded Units and HKD for HKD traded Units )  Brokerage fees (in such currency as determined by individual brokers), Transaction Levy and Trading Fee (in HKD only)

Cash creation and cash redemption (RMB only)	30,000 (Application Unit Size)	Through Participating Dealers only	Any person acceptable to the Participating Dealer as its client	<p>Cash based on the Issue Price/ Redemption Value and the number of Units applied (payable/ receivable in RMB only unless the Participating Dealer otherwise agrees)</p> <p>Any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer in the currency determined by or agreed with it)</p> <p>Transaction Fee payable to the Trustee (payable in RMB)</p> <p>Transaction Fee payable to the Service Agent (payable in HKD)</p> <p>Duties and Charges (payable in RMB)</p>
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\* Please refer to "Fees and Expenses" for further details

### **RMB Payment or Account Procedures**

Investors may apply for Units through Participating Dealers only if they have sufficient RMB to pay the application monies and the related fees unless otherwise informed by the Participating Dealers that other currencies can be accepted. Investors should note that RMB is the only official currency of the PRC mainland. While both onshore RMB ("CNY") and offshore RMB ("CNH") are the same currency, they are traded in different and separate markets. Since the 2 RMB markets operate independently where the flow between them is highly restricted, CNY and CNH are traded at different rates and their movement may not be in the same direction. Although there is a significant amount of RMB held offshore (i.e. outside the PRC mainland), CNH cannot be freely remitted into the PRC mainland and is subject to certain restrictions, and vice versa. As such whilst CNH and CNY are both the same currency, certain special restrictions do apply to RMB outside the PRC mainland. The liquidity and trading price of the Sub-Fund may be adversely affected by the limited availability of, and restrictions applicable to, RMB outside the PRC mainland.

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

If any investors wish to buy or sell Units on the secondary market, they should contact their

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

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

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

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

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

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

When an individual investor opens an RMB bank account or settle RMB payments, he or she will be subject to a number of restrictions, including:

- (a) in respect of Hong Kong residents, the existing permitted conversions in relation to personal customers are up to RMB20,000 conducted through RMB bank accounts per person per day or up to RMB20,000 per transaction per person in bank notes for walk-in personal customers; and
- (b) the daily maximum remittance amount to the PRC mainland is RMB80,000 and a remittance service is only available to an RMB deposit account-holder who remits from his or her RMB deposit account to the PRC mainland and provided that the account name of the account in the PRC mainland is identical with that of the RMB bank account with the bank in Hong Kong.

Please also refer to the section entitled “RMB Currency Risks” for further details.

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

### **Creation by Participating Dealers**

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

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

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

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

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

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

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

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



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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (c) where acceptance of the creation request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer necessary for compliance with applicable legal and regulatory requirements; or
- (d) circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the creation request; or
- (e) during any period when the business operations of the Participating Dealer are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God.

*Requirements Relating to Creation Requests by Potential Investors*

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

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

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

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

The Application Unit Size for the Sub-Fund is 30,000 Units. Creation Applications submitted in respect of Units other than in Application Unit Size will not be accepted.

#### *Creation Process*

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

If a Creation Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Creation Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Creation Application. The current Dealing Deadline After Listing is 11:00 a.m. (Hong Kong time) on the relevant Dealing Day, or such other time as the Manager (with the approval of Trustee) may determine on any day when the trading hours of the SEHK or the inter-bank bond market are reduced.

To be effective, a Creation Application must:

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

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where in the opinion of the Manager, acceptance of the Creation Application would have an adverse effect on the Sub-Fund;
- (c) where the QFI status of the Manager relating to the Sub-Fund is cancelled or withdrawn;
- (d) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;

- (e) where acceptance of the Creation Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager necessary for compliance with applicable legal and regulatory requirements;
- (f) circumstances outside the control of the Manager make it for all practicable purposes impossible to process the Creation Application;
- (g) during any period when the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian in relation to the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riots, strikes or acts of God; or
- (h) an Insolvency Event occurs in respect of the relevant Participating Dealer.

In the event of such rejection, the Manager shall notify the relevant Participating Dealer and the Trustee of its decision to reject such Creation Application in accordance with the Operating Guidelines. Where for any reason there is a limit to the number of Units which can be created, priority will be given to Participating Dealers and the relevant Creation Applications as set out in the Operating Guidelines.

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

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

#### *Issue of Units*

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

No Fractions of a Unit shall be Created or Issued by the Trustee.

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

Creation Application. An Extension Fee may be payable in relation to such an extension. See the section on “Fees and Expenses” for further details.

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

#### *Fees Relating to Creation Applications*

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

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

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

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

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

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

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

The Trustee, after consultation with the Manager, may cancel a creation order in respect of any Units deemed created pursuant to a Creation Application if it has not received the full amount of the cash (including Transaction Fee, Duties and Charges) relating to the Creation Application by the relevant time on the Dealing Day.

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

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

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

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

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

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

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

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (c) where acceptance of the redemption request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer necessary for compliance with applicable legal and regulatory requirements;
- (d) circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the redemption request; or
- (e) during any period when the business operations of the Participating Dealer are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God.

*Requirements Relating to Redemption Requests by Unitholders*

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

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

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

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

### *Redemption Process*

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

If a Redemption Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Redemption Application shall be treated as having been received at the opening of business on the next following Dealing Day, which shall be the relevant Dealing Day for the purposes of that Redemption Application. The current Dealing Deadline After Listing is 11:00 a.m. (Hong Kong time) on the relevant Dealing Day, or such other time as the Manager (with the approval of Trustee) may determine on any day when the trading hours of the SEHK or the inter-bank bond market are reduced.

To be effective, a Redemption Application must:

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

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

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



- (f) during any period when the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian in relation to the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riots, strikes or acts of God.

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

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

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

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

#### *Redemption of Units*

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

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

The Redemption Value of Units tendered for redemption shall be the Net Asset Value per Unit of the Sub-Fund rounded to the nearest 4 decimal places (0.00005 or above being rounded up). The benefit of any rounding adjustments will be retained by the Sub-Fund. For the purpose of valuation, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the Redemption Application is treated as having been received.

The interval between the receipt of a properly documented Redemption Application and payment of redemption proceeds (which shall be in RMB only) may not exceed 1 calendar month provided that there is no delay in submitting all duly completed redemption documentation and the determination of the Net Asset Value or dealing in Units is not suspended.



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

#### *Fees relating to Redemption Applications*

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

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

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

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

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

#### **Cancellation of Redemption Applications**

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

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

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

- (a) the Trustee may charge the relevant Participating Dealer for the account of the Registrar an application cancellation fee (see the section on “Fees and Expenses” for further details);

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

### **Deferred Redemption**

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

### **Suspension of Creations and Redemptions**

The Manager may, at its discretion, after consultation with the Trustee (and where practicable, after consultation with Participating Dealers), having regard to the best interests of the Unitholders, suspend the creation or issue of Units of the Sub-Fund, suspend the redemption of Units of the Sub-Fund and/or (subject to the relevant requirements of the Code where payment of redemption monies exceeds 1 calendar month) delay the payment of any monies in respect of any Creation Application or Redemption Application in the following circumstances:

- (a) during any period when trading on the SEHK or any other Recognised Stock Exchange or Recognised Futures Exchange is restricted or suspended;
- (b) during any period when a market on which a Security (that is a component of the Index) has its primary listing, or the official clearing and settlement depository (if any) of such market, is closed;

- (c) during any period when dealing on a market on which a Security (that is a component of the Index) has its primary listing is restricted or suspended;
- (d) during any period when, in the opinion of the Manager, settlement or clearing of Securities in the official clearing and settlement depository (if any) of such market is disrupted;
- (e) during the existence of any state of affairs as a result of which delivery or purchase of Securities, as appropriate or disposal of investments for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders of the Sub-Fund;
- (f) during any period when the Index is not compiled or published;
- (g) during any breakdown in any of the means normally employed in determining the Net Asset Value of the Sub-Fund or when for any other reason the value of any Securities or other property for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (h) during any period when the determination of the Net Asset Value of the Sub-Fund is suspended or if any circumstance specified in the section on “Suspension of the Determinations of Net Asset Value” below arises; or
- (i) during any period when the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian in respect of the Sub-Fund are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes or acts of God.

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

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at <http://www.csopasset.com/rmb-bond-etf> (the contents of which and of other websites referred to in this Prospectus have not been reviewed by the SFC) or in such other publications as it decides.

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

A Participating Dealer may, at any time after a suspension has been declared and before termination of such suspension, withdraw any Creation Application or Redemption Application by notice in writing to the Manager and the Manager shall promptly notify and request the Trustee to return to the Participating Dealer any cash received by it in respect of the Creation Application (without interest) as soon as practicable.

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

### **Evidence of Unitholding**

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

### **Restrictions on Unitholders**

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

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

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

### **Transfer of Units**

A Unitholder may transfer Units using the standard transfer form issued by SEHK or by an instrument in writing in common form signed by (or, in the case of a body corporate, signed on behalf of or sealed by) the transferor and the transferee. The transferor will be deemed to remain the Unitholders of the Units transferred until the name of the transferee is entered in the register of Unitholders in respect of the Units being transferred. No Units may be transferred if, as a result, either the transferor or the transferee would hold Units having a value less than the minimum holding in the Sub-Fund. If and to the extent that all Units are deposited in CCASS, HKSCC Nominees Limited will be the sole Unitholder, holding such Units for the persons admitted by HKSCC as a participant of CCASS.

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

### **General**

Units are listed on the SEHK. Units are neither listed nor dealt on any other stock exchange and no application for such listing or permission to deal is being sought as at the date of this Prospectus. Application may be made in the future for a listing of Units on 1 or more other stock exchanges.

Dealings on the SEHK in Units began on 19 February 2014.

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

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

The Manager will use its best endeavours to put in place arrangements so that at least 1 Market Maker will maintain a market for Units traded in RMB, at least 1 Market Maker will maintain a market for Units traded in HKD (although the Market Maker for all counters may be the same entity). Broadly, the obligations of a Market Maker will include quoting bid and offer prices on the SEHK with the intention of providing liquidity. Given the nature of the Market Maker's role, the Manager will make available to a Market Maker, the portfolio composition information which is made available to a Participating Dealer.

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

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

The Units are accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Units on the SEHK or on any other date HKSCC chooses. Settlement of transactions between participants of the SEHK is required to take place in CCASS on the second CCASS Settlement Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

Investors should note that the Renminbi Trading Support Facility (the “TSF”) launched by HKEX is currently not made available for fixed income ETFs. As such, if an investor does not have sufficient RMB, it will need to source RMB from other channels or it will only be able to buy units of the Sub-Fund through the HKD counter.

### **Dual-Counter Trading**

The Manager has arranged for the Units to be available for trading on the secondary market on the SEHK under a Dual-Counter arrangement. Units are denominated in RMB. Despite the Dual-Counter arrangement the creation of new Units and redemption of Units in the primary market are settled in RMB only. The Sub-Fund offers 2 trading counters on the SEHK (i.e. RMB counter and HKD counter) to investors for secondary trading purposes. Units traded in RMB counter will be settled in RMB and Units traded in HKD counter will be settled in HKD. Apart from settlement in different currencies, the trading prices of Units in the 2 counters may be different as the RMB counter and HKD counter are 2 distinct and separate markets.

Units traded on all the two counters are of the same class and all Unitholders of the counters are treated equally. The 2 counters will have different stock codes, different stock short names and different ISIN numbers as follows:

	<b>RMB counter</b>	<b>HKD counter</b>
SEHK stock code	83199	3199
Short name	CSOP CTPBOND-R	CSOP CTPBOND
ISIN numbers	HK0000182979	HK0000182987

Normally, investors can buy and sell Units traded in the same counter or alternatively buy in 1 counter and sell in another counter provided their brokers provide all the HKD and RMB trading services at the same time and offer inter-counter transfer services to support Dual-Counter trading. Inter-counter buy and sell is permissible even if the trades take place within the same trading day. However, investors should note that the trading price of Units traded in the RMB counter and HKD counter may be different and may not always maintain a close relationship depending on factors such as market demand and supply and liquidity in each counter.

More information with regard to the Dual-Counter is available in the frequently asked questions in respect of the Dual-Counter published on HKEX’s website <http://www.hkex.com.hk/Products/Securities/Exchange-Traded-Products>.

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



## **DETERMINATION OF NET ASSET VALUE**

The Net Asset Value of the Sub-Fund will be determined by the Trustee as at each Valuation Point, which may be different from the close of any Market, by calculating the value of the assets of the Sub-Fund and deducting the liabilities of the Sub-Fund, in accordance with the terms of the Trust Deed.

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

- (a) Securities that are quoted, listed, traded or dealt in on any Market shall unless the Manager (in consultation with the Trustee) determines that some other method is more appropriate, be valued by reference to the price appearing to the Manager to be the official closing price, or if unavailable, the last traded price on the Market as the Manager may consider in the circumstances to provide fair criterion, provided that
  - (i) if a Security is quoted or listed on more than one Market, the Manager shall adopt the price quoted on the Market which in its opinion provides the principal market for such Security;
  - (ii) if prices on that Market are not available at the relevant time, the value of the Securities shall be certified by such firm or institution making a market in such investment as may be appointed for such purpose by the Manager or, if the Trustee so requires, by the Manager after consultation with the Trustee;
  - (iii) in the case of a Security that is a debt instrument which may or may not be the constituent of the Index, the value of such Security shall be determined in accordance with the Index's valuation policy (this being the fair value), and the Manager and the Trustee shall have the final determination right to the valuation of such quoted security and shall be entitled to use prices furnished by the Index Provider;
  - (iv) interest accrued on any interest-bearing Securities shall be taken into account, unless such interest is included in the quoted or listed price;
  - (v) the Manager and the Trustee shall be entitled to use and rely on electronic price feeds from such source or sources as they may from time to time determine, notwithstanding that the prices so used are not the official closing prices or last traded prices as the case may be;
- (b) the value of each interest in any unlisted mutual fund corporation or unit trust shall be the latest available net asset value per share or unit in such mutual fund corporation or unit trust or if not available or appropriate, the last available bid or offer price for such unit, share or other interest;
- (c) futures contracts will be valued based on the formulae set out in the Trust Deed;
- (d) except as provided for in paragraph (a)(iii) or (b), the value of any investment which is not listed quoted or ordinarily dealt in on a Market shall be the initial value thereof equal to the amount expended on behalf of the Sub-Fund in the acquisition of such investment (including, in each case the amount of stamp duties, commissions and other acquisition expenses) provided that the Manager shall, in consultation with the Trustee, cause a revaluation to be made on a regular basis by a professional person approved by the Trustee as qualified to value such investments (which may, if the Trustee agrees, be the Manager);
- (e) cash, deposits and similar investments shall be valued at their face value (together with accrued interest) unless, in the opinion of the Manager and in consultation with the Trustee, any adjustment should be made to reflect the value thereof; and

- (f) notwithstanding the foregoing, the Manager in consultation with the Trustee may adjust the value of any investment or permit some other method of valuation to be used if, having regard to relevant circumstances, it considers that such adjustment is required to fairly reflect the value of the investment.

The Trustee will perform any currency conversion at the rates which the Trustee and the Manager deem appropriate from time to time.

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

To the extent that the valuation or accounting basis adopted by the Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS. Any such adjustments will be disclosed in the annual financial reports, including a reconciliation note to reconcile values arrived at by applying the Trust's valuation rules.

### **Suspension of the Determinations of Net Asset Value**

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

- (a) there exists any state of affairs prohibiting the normal disposal and/or purchase of the investments of the Sub-Fund;
- (b) circumstances exist as a result of which, in the opinion of the Manager, it is not reasonably practicable to realise any Securities held or contracted for the account of the Sub-Fund or it is not possible to do so without seriously prejudicing the interest of Unitholders of Units of the Sub-Fund;
- (c) for any other reason the prices of investments of the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (d) there is a breakdown in any of the means normally employed in determining the Net Asset Value of the Sub-Fund or the Net Asset Value per Unit of the relevant class or when for any other reason the value of any Securities or other property for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (e) the remittance or repatriation of funds which will or may be involved in the realisation of, or in the payment for, the Securities of the Sub-Fund or the subscription or redemption of Units of the Sub-Fund is delayed or cannot, in the opinion of the Manager, be carried out promptly or at normal rates of exchange; or
- (f) the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian are substantially interrupted or closed as a result of or arising from pestilence, acts of war, terrorism, insurrection, revolution, civil unrest, riot, strikes, or acts of God.

Any suspension shall take effect upon its declaration and thereafter there shall be no determination of the Net Asset Value of the Sub-Fund and the Manager shall be under no obligation to rebalance the Sub-Fund until the suspension is terminated on the earlier of (i)



the Manager declaring the suspension is at an end; and (ii) the first Dealing Day on which (1) the condition giving rise to the suspension shall have ceased to exist; and (2) no other condition under which suspension is authorised exists.

The Manager shall notify the SFC and publish a notice of suspension following the suspension, and at least once a month during the suspension, on its website at <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC) or in such publications as it decides.

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

### **Issue Price and Redemption Value**

The Issue Price of Units created and issued by a Creation Application will be the prevailing Net Asset Value of the Sub-Fund in RMB as at the relevant Valuation Point divided by the total number of Units in issue rounded to the nearest 4 decimal places (0.00005 or above being rounded up).

The Redemption Value on a Dealing Day shall be the prevailing Net Asset Value of the Sub-Fund in RMB as at the relevant Valuation Point divided by the total number of Units in issue rounded to the nearest 4 decimal places (0.00005 or above being rounded up).

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

The Issue Price and the Redemption Value for the Units (or the latest Net Asset Value of the Units) will be available on the Manager's website at <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC) or published in such publications as the Manager may decide from time to time.

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

## FEES AND EXPENSES

There are 3 levels of fee and expenses applicable to investing in the Sub-Fund as set out in the following table, current as at the date of the Prospectus.

<b>(a) Fees and expenses payable by Participating Dealers on creation and redemption of Units (primary market)</b>	<b>Amount</b>
Transaction Fee	RMB12,000 <sup>3</sup> per Application HKD1,000 <sup>3</sup> per book-entry deposit and book-entry withdrawal
Registrar Fee	RMB120 <sup>3</sup> per transaction
Application Cancellation Fee	RMB8,500 <sup>4</sup> per Application
Extension Fee (applicable to redemption of Units only)	RMB8,500 <sup>5</sup> per Application
Stamp duty	Nil
Transaction levy and trading fee	Nil
<b>(b) Fees and expenses payable by investors</b>	<b>Amount</b>
<b><i>i) Fees payable by clients of the Participating Dealers</i></b>	
Fees and charges imposed by the Participating Dealer <sup>6</sup>	Such amounts as determined by the relevant Participating Dealer

<sup>3</sup> RMB12,000 is payable to the Trustee and HKD1,000 is payable to the Service Agent per book-entry deposit and book-entry withdrawal. The Registrar will charge a fee of RMB120 for each Creation Application and Redemption Application. A Participating Dealer may pass on to the relevant investor such Transaction Fee and Registrar Fee.

<sup>4</sup> An Application Cancellation fee is payable to the Trustee and/or Registrar by the Participating Dealer in respect of either a withdrawn or failed Creation Application or Redemption Application. Cancellation compensation may also be payable pursuant to the terms of the Operating Guidelines.

<sup>5</sup> An extension fee is payable by the Participating Dealer to the Trustee on each occasion the Manager grants the Participating Dealer's request for extended settlement in respect of a Redemption Application.

<sup>6</sup> The Participating Dealer may increase or waive the level of its fees in its discretion. Information regarding these fees and charges is available upon request to the relevant Participating Dealer.

ii) **Fees payable by all investors in respect of dealings in the Units on SEHK (applicable After Listing)**

Brokerage	Market rates
Transaction levy	0.0027% <sup>7</sup>
Trading fee	0.005% <sup>8</sup>
Stamp duty	Nil
Inter-counter transfer	HKD5 <sup>9</sup>

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

(c) **Fees and expense payable by the Sub-Fund (see further disclosure below)**

<b>Fees and Expenses Payable by Sub-Fund</b>	<b>Amount</b>
Management Fee <sup>10</sup>	0.28% p.a. of Net Asset Value

**Fees and expense payable by the Sub-Fund**

*Management Fee*

The Sub-Fund employs a single management fee structure, with the Sub-Fund paying all of its fees, costs and expenses (and its due proportion of any costs and expenses of the Trust allocated to it) as a single flat fee (the “Management Fee”).

Fees and expenses taken into account in determining the Sub-Fund’s Management Fee include, but are not limited to, the Manager’s fee, the Trustee’s fee, the Custodian’s fee, the PRC Custodian fee, the Registrar’s fee, the Service Agent’s fee, the fees and expenses of the Auditor, service agents, ordinary legal and out-of-pocket expenses incurred by the Trustee or the Manager, and the costs and expenses of licensing indices used in connection with the Sub-Fund. The Manager may also pay a distribution fee to any distributor or sub-distributor of the Sub-Fund out of the Management Fee. A distributor may re-allocate an amount of the distribution fee to the sub-distributors.

The Management Fee does not include brokerage and transaction costs such as the fees and charges relating to the investment and realising the investments of the Sub-Fund and extraordinary items such as litigation expenses. The Management Fee is accrued daily, paid monthly in arrears.

<sup>7</sup> Transaction levy of 0.0027% of the price of the Units payable by each of the buyer and the seller.

<sup>8</sup> Trading fee of 0.005% of the price of the Units, payable by each of the buyer and the seller.

<sup>9</sup> HKSCC will charge each CCASS participant a fee of HKD5 per instruction for effecting an inter-counter transfer from one counter to another counter. Investors should check with their brokers regarding any additional fees.

<sup>10</sup> Accrued daily and payable monthly in arrears.

### *Investment Advisor's Fee*

The Management Fee is inclusive of the Investment Advisor's fee and the Manager will pay the fees of the Investment Advisor out of the Management Fee.

### *Performance Fee*

No performance fee is chargeable to the Sub-Fund.

### *Ongoing Charges over a Year*

The Sub-Fund's ongoing charges over a year represents the sum of the ongoing charges chargeable to the Sub-Fund expressed as a percentage of the Sub-Fund's average net asset value. It may vary from year to year.

### *Promotional Expenses*

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

### *Other Expenses*

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

### **Establishment Costs**

The cost of establishing the Trust and the Sub-Fund including the preparation of this Prospectus, inception fees, the costs of seeking and obtaining the listing and authorisation by the SFC and all initial legal and printing costs and (including, if considered appropriate by the Manager, any additional costs of determining the stock code which are estimated to be HKD1,000,000) (which are estimated to be RMB2.5 million) were borne by the Sub-Fund (unless otherwise determined by the Manager) and amortised over the first 5 financial years of the Sub-Fund or such other period as determined by the Manager after consulting the Auditor.

### **Increase in Fees**

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

## RISK FACTORS

*An investment in the Sub-Fund carries various risks referred to below. Each of these risks may affect the Net Asset Value, yield, total return and trading price of the Units. There can be no assurance that the investment objective of the Sub-Fund will be achieved. Prospective investors should carefully evaluate the merits and risks of an investment in the Sub-Fund in the context of their overall financial circumstances, knowledge and experience as an investor.*

### **Investment Risks Relating to the Sub-Fund**

**Loss of Capital Risk.** The Sub-Fund is an investment fund. There is no guarantee of the repayment of principal. Therefore your investment in the Sub-Fund may suffer losses.

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

Onshore PRC securities are registered in the joint names of the Manager (as the QFI holder) and the Sub-Fund in accordance with the relevant rules and regulations, and maintained in electronic form via securities account(s) with the relevant depository(ies). The accounts are required to bear the name of “CSOP Asset Management Limited” as this is the name under which the QFI is approved by the relevant regulator. The PRC Custodian acts on the QFI’s behalf in the inter-bank bond market and maintain the Sub-Fund’s assets in custody in accordance with the terms of the PRC Custody Agreement.

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

Investors should note that there can be no assurance that a QFI will continue to maintain its QFI status, or that redemption requests can be processed in a timely manner due to adverse changes in relevant laws or regulations, or that dealings of the Sub-Fund will not be suspended. In extreme circumstances, the Sub-Fund may incur significant losses due to limited investment capabilities, or may not be able to fully implement or pursue its investment objective or strategy, due to QFI investment restrictions, illiquidity of the Chinese domestic securities market, and/or delay or disruption in execution of trades or in settlement of trades.

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

**PRC Custodian Risk.** Onshore PRC assets will be maintained by the PRC Custodian in electronic form via securities account(s) with the relevant depository(ies) and a special deposit account with the PRC Custodian.

The PRC Custodian will also execute transactions for the Sub-Fund in the PRC mainland markets. The Sub-Fund may incur losses due to the acts or omissions of the PRC Custodian in

the execution or settlement of any transaction or in the transfer of any funds or securities. Subject to the applicable laws and regulations in the PRC mainland, the Manager will make arrangements to ensure that the PRC Custodian has appropriate procedures to properly safe-keep the Sub-Fund's assets.

According to the QFI Regulations and market practice, the securities and special deposit accounts for the Sub-Fund in the PRC mainland are maintained in the joint names of the Manager as the QFI and the Sub-Fund. Although the Manager has obtained a legal opinion that the assets in such securities account would belong to the Sub-Fund, such opinion cannot be relied on as being conclusive, as the QFI Regulations are subject to the interpretation of the relevant authorities in the PRC mainland.

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

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

**QFI Late Settlement Risk.** The Sub-Fund will be required to remit RMB from Hong Kong to the PRC mainland to settle the purchase of Treasury Bonds and Policy Bank Bonds by the Sub-Fund from time to time. In the event such remittance is disrupted, the Sub-Fund will not be able to fully replicate the Index by investing in the relevant Treasury Bonds and Policy Bank Bonds and this may increase the tracking error of the Sub-Fund.

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

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

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

**Risks associated with Bond Connect.** The relevant rules and regulations on Bond Connect are subject to change which may have potential retrospective effect. Where a suspension in the trading through Bond Connect is effected, the Sub-Fund's ability to invest in Treasury Bonds and Policy Bank Bonds or access the PRC mainland market through the programme will be adversely affected. In such event, the Sub-Fund will have to increase its reliance on the QFI regime, and its ability to achieve its investment objective could be negatively affected.

### **Fixed Income Investments Risks**

**Interest Rate Risk.** Because the Sub-Fund invests in fixed-income Securities, the Sub-Fund is subject to interest rate risk. Interest rate risk is the risk that the value of the Sub-Fund's portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter term fixed income investments and higher for longer term fixed income investments.

As the Sub-Fund invests in Treasury Bonds and Policy Bank Bonds, the Sub-Fund is additionally subject to policy risk as changes in macro-economic policies in the PRC mainland (including monetary policy and fiscal policy) may have an influence over the PRC mainland's capital markets and affect the pricing of the bonds in the Sub-Fund's portfolio, which may in turn adversely affect the return of the Sub-Fund. Falling market interest rates can lead to a decline in income for the Sub-Fund.

**Liquidity Risk.** Liquidity risk exists when a particular investment is difficult to purchase or sell. If the Sub-Fund invests in illiquid Securities or the current market become illiquid, it may reduce the returns of the Sub-Fund because the Sub-Fund cannot sell the illiquid Securities at an advantageous time or price. The cost of dealing may be high in such illiquid markets. A disruption in the asset allocation in the Sub-Fund is also possible if underlying Securities cannot be purchased or sold. The Sub-Fund is subject to liquidity risk as continued regular trading activity and active secondary market for treasury bonds is not guaranteed. The Sub-Fund may suffer losses in trading such instruments. The bid and offer spread of the price of bonds may be large, so the Sub-Fund may incur significant trading and realisation costs and may suffer losses accordingly. As such, there can be no assurance that investors will be able to dispose of their Units at prices in the amounts and at the times at which they would wish to or which they may otherwise be able to do in respect of other HKD denominated Securities listed on the SEHK.

**Sovereign Debt Risk.** The Sub-Fund invests in Treasury Bonds which are sovereign debt Securities and such investments involve special risks. The PRC mainland governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A PRC mainland governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the PRC mainland governmental entity's policy towards the International Monetary Fund and the political constraints to which a PRC mainland governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a PRC mainland governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its



debt on a timely basis. Consequently, PRC mainland governmental entities may default on their sovereign debt. Holders of sovereign debt, including a fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. As at the date of this Prospectus, there is no bankruptcy proceeding by which sovereign debt on which a PRC mainland governmental entity has defaulted may be collected in whole or in part. The Sub-Fund's recourse against a defaulting sovereign (the PRC mainland government) is limited.

**Issuer Risk.** Investment in bonds issued by the entities that are regarded as having the same credit quality or rating as the PRC mainland sovereign credit by the Sub-Fund is exposed to the credit/insolvency risk of the issuers which may be unable or unwilling to make timely payments on principal and/or interest. An issuer suffering an adverse change in its financial condition could lower the credit quality of a Security, leading to greater price volatility of the Security. A lowering of the credit rating of a Security or its issuer may also affect the Security's liquidity, making it more difficult to sell. In general, debt instruments that have a lower credit rating or that are unrated will be more susceptible to the credit risk of the issuers. In the event of a default or credit rating downgrading of the issuers of the bonds, the bonds and the Sub-Fund's value will be adversely affected and investors may suffer a substantial loss as a result. The Sub-Fund may also encounter difficulties or delays in enforcing its rights against the issuer of these bonds as the issuer is incorporated outside Hong Kong and subject to foreign laws.

Treasury Bonds and Policy Bank Bonds are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer (the PRC mainland government). As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of Treasury Bonds or Policy Bank Bonds (as the case may be) only after all secured claims have been satisfied in full. The Sub-Fund will be fully exposed to the credit/insolvency risk of its Treasury Bond or Policy Bank Bond issuer counterparties as an unsecured creditor.

**Credit Risk.** The value of the Sub-Fund is affected by the credit worthiness of its underlying investments. A deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spread) of an underlying investment will adversely impact the value of such investment. Fixed income instruments are offered on an unsecured basis without collateral, and will rank equally with other unsecured debts of the relevant issuer. As a result, if the issuer becomes bankrupt, proceeds from the liquidation of the issuer's assets will be paid to holders of fixed income instruments only after all secured claims have been satisfied in full. The Sub-Fund is therefore fully exposed to the credit/insolvency risk of its counterparties as an unsecured creditor.

**Credit Downgrade Risk.** Credit rating of issuers of fixed income instruments and credit rating of Securities may be downgraded, thus adversely affecting the value and performance of the Sub-Fund holding such investments. Although the Sub-Fund will not invest in any non-investment grade bond, investors should note that there is no assurance that the bond invested by the Sub-Fund or the bond issuer will continue to have an investment grade rating or continue to be rated.

**Valuation Risk.** In a thinly traded market, it may be more difficult to achieve fair value when purchasing or selling underlying Securities because of the wide bid-ask spread. The inability to transact at advantageous times or prices may result in a reduction in the Sub-Fund's returns. Further, changing market conditions or other significant events, such as credit rating downgrades affecting issuers or major financial institutions, may also pose valuation risk to the Sub-Fund as the value of the Sub-Fund's portfolio of fixed income instruments may become more difficult or impossible to ascertain. In such circumstances, valuation of the Sub-Fund's



investments may involve uncertainties and judgemental determinations as there is a possibility that independent pricing information may at times be unavailable. If such valuations should prove to be incorrect, the Net Asset Value of the Sub-Fund may need to be adjusted and may be adversely affected. Such events or credit rating downgrades may also subject the Sub-Fund to increased liquidity risk as it may become more difficult for the Sub-Fund to dispose of its holdings of bonds at a reasonable price or at all.

**Illiquidity of Bonds Close to Maturity Risk.** The Sub-Fund's underlying fixed income Securities may become more illiquid when nearing maturity. It therefore may be more difficult to achieve fair valuation in the market.

### **RMB Currency Risks**

**RMB Not Freely Convertible and Subject to Exchange Controls and Restrictions Risk.**

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

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

Any PRC mainland government's policies on exchange control and repatriation restrictions are subject to change and may reduce the liquidity as well as operation of the Sub-Fund. It may also cause suspension of creation of units of the Sub-Fund.

**RMB Trading and Settlement of Units Risk.** The trading and settlement of RMB denominated Securities are recent developments in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. The trading and settlement of the RMB traded Units may not be capable of being implemented as envisaged. In addition, the Units are some of the first Securities with a Dual-Counter (i.e. RMB traded and HKD traded Units) to be traded on the SEHK and settled in CCASS. Although

end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in March, September and October 2011, some brokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, there is no assurance of their readiness for dealing in RMB denominated Securities. Investors should note that not all brokers may be ready and able to carry out trading and settlement of RMB traded Units and thus they may not be able to deal in the RMB traded Units through some brokers. Investors should check with their brokers in advance if they intend to engage Dual-Counter trading or in inter-counter transfers and should fully understand the services which the relevant broker is able to provide (as well as any associated fees). Some exchange participants may not provide inter-counter transfer or Dual-Counter trading services.

**Non-RMB or Late Settlement Redemption Risk.** Where, in extraordinary circumstances, the remittance or payment of RMB funds on the redemption of Units cannot, in the opinion of the Manager in consultation with the Trustee, be carried out normally due to legal or regulatory circumstances beyond the control of the Trustee and the Manager, redemption proceeds may be delayed or, if necessary in exceptional circumstances, be paid in HKD instead of in RMB (at an exchange rate determined by the Manager after consultation with the Trustee). As such, there is a risk that investors may not be able to receive, through Participating Dealers, settlement upon a redemption of Units in RMB (and may receive HKD) or may receive settlement in RMB on a delayed basis.

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

**Unavailability of the Renminbi Trading Support Facility (“TSF”) Risk.** Investors should note that the TSF launched by HKEEX is currently not made available for fixed income exchange traded funds. As such, if an investor does not have sufficient RMB, it will need to source RMB from other channels or it will only be able to buy Units through the HKD counter.

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

concerns of the PRC mainland's trading partners.

The possibility that the appreciation of the RMB will be accelerated cannot be excluded. Further, any devaluation of the RMB could adversely affect the value of investors' investments in the Sub-Fund. Investors whose base currency is not the RMB may be adversely affected by changes in the exchange rates of the RMB.

**Offshore RMB ("CNH") Market Risk.** The onshore RMB ("CNY") is the only official currency of the PRC mainland and is used in all financial transactions between individuals, state and corporations in the PRC mainland. Hong Kong is the first jurisdiction to allow accumulation of RMB deposits outside the PRC mainland. Since June 2010, the offshore RMB ("CNH") is traded officially, regulated jointly by the Hong Kong Monetary Authority (the "HKMA") and the PBOC. While both CNY and CNH represent RMB, they are traded in different and separated markets. The 2 RMB markets operate independently where the flow between them is highly restricted. Although the CNH is a proxy of the CNY, they do not necessarily have the same exchange rate and their movement may not be in the same direction. This is because these currencies act in separate jurisdictions, which leads to separate supply and demand conditions for each, and therefore separate but related currency markets. Any divergence between CNH and CNY may adversely impact investors who intend to gain exposure to CNY through investments in the Sub-Fund.

However, the current size of RMB denominated financial assets outside the PRC mainland is limited. As at 31 December 2017, the total amount of RMB (CNH) deposits held by institutions authorised to engage in RMB banking business in Hong Kong amounted to approximately RMB559.14 billion. In addition, participating authorised institutions are also required by the HKMA to maintain a total amount of RMB (in the form of cash and its settlement account balance with the Renminbi Clearing Bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for Hong Kong resident individual customers of up to RMB20,000 per person per day. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions. Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC mainland laws and regulations on foreign exchange. There is no assurance that new PRC mainland regulations will not be promulgated or the relevant settlement agreements between Hong Kong banks and the PBOC will not be terminated or amended in the future which will have the effect of restricting availability of RMB offshore. The limited availability of RMB outside the PRC mainland may affect the ability of investors to acquire Units or to sell Units affecting the liquidity and trading price of the Units on the SEHK. To the extent the Manager is required to source RMB in the offshore market, there is no assurance that it will be able to source such RMB on satisfactory terms, if at all.

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

arrangements for distributions.

### **Other Investment Risks**

**Emerging Market Risk.** Investing in emerging markets, such as the PRC mainland, involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.

**Over-the-counter Market Risk.** OTC markets such as the PRC mainland inter-bank bond market are subject to less governmental regulation and supervision of transactions than organised exchanges. In addition, many of the protections afforded to participants on some organised exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions on OTC markets. Therefore, by entering into transactions on OTC markets, the Sub-Fund will be subject to the risk that its direct counterparty will not perform its obligations under the transactions and that the Sub-Fund will sustain losses.

**Distributions May Not Be Paid.** Whether or not distributions will be made by the Sub-Fund is at the discretion of the Manager taking into account various factors and its own distribution policy. Some factors are beyond the control of the Manager, such as issuer risk where the bond issuer fails to pay interest. There can be no assurance that the distribution yield of Sub-Fund is the same as that of its Index due to factors such as expenses incurred by the Sub-Fund.

**Economic Risk.** Economic instability in an emerging market such as the PRC mainland may arise when such country is heavily dependent upon commodity prices and international trade. The PRC mainland economy has been and may continue to be adversely affected by the economics of its trading partners, foreign exchange controls, managed adjustments in relative currency values, trade barriers and other protectionist measures imposed or negotiated by the countries with which they trade. Some emerging market countries have experienced currency devaluations and some have experienced economic recession causing a negative effect on their economies and Securities markets. There can be no assurance that the PRC mainland may not experience similar circumstances.

**Political and Social Risk.** Some governments in emerging market countries are authoritarian and some have periodically used force to suppress civil dissent. Disparities of wealth, the pace and success of democratisation and capital market development and ethnic, religious and racial disaffection, among other factors, may lead to social unrest, violence and/or labour unrest in emerging market countries such as the PRC mainland. Unanticipated political or social developments may result in sudden and significant investment losses. All of these factors can have a material impact on the Index and create a risk of higher price volatility which, in turn, can increase any tracking error.

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

rising interest rate market); income risks (risks of falling incomes from a portfolio in a falling interest rate market); and credit risk (risk of a default by the underlying issuer of a Security that forms part of the Index).

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

**Foreign Security Risk.** The Sub-Fund invests in the debt markets of the PRC mainland. Such markets are subject to special risks associated with foreign investment including market fluctuations caused by factors affected by political and economic developments. Investing in the Securities of non-Hong Kong entities involves special risks and considerations not typically associated with investing in Hong Kong entities. These include differences in accounting, auditing and financial reporting standards, the possibility of nationalisation of assets, expropriation or confiscatory taxation, or regulation, the imposition of withholding taxes on payments or distributions referable to underlying Securities, adverse changes in investment, tax or exchange control regulations, economic growth and indicators (such as GDP, inflation rate, self sufficiency and balance of payments position of the relevant economy), government regulation, political instability that could affect local investments in foreign countries, and potential restrictions on the flow of international capital. Each of these factors may have a large impact on the performance of the Sub-Fund.

**Passive Investment Risks.** The aim of the Sub-Fund is to track the performance of the Index. The Sub-Fund is not actively managed and will not adopt any temporary defensive position against any market downturn, i.e. it does not try to beat or perform better than the Index. The Sub-Fund invests in Securities representative of the Index regardless of their investment merit. The Manager does not attempt to select Securities individually or to take defensive positions in declining markets. Investors should note that the lack of discretion on the part of the Manager to adapt to market changes due to the inherent investment nature of the Sub-Fund will mean that where there is a decline in the Index this is expected to result in corresponding decline in the value of the Sub-Fund. Investors may suffer significant losses accordingly.

**Management Risk.** Because there can be no guarantee that the Sub-Fund will fully replicate its Index and may hold non-index Securities, it is subject to management risk. This is the risk that the Manager's strategy, the implementation of which is subject to a number of constraints, may not produce the intended results. In addition, the Manager has absolute discretion to exercise Unitholders' rights with respect to Securities held by the Sub-Fund. There can be no guarantee that the exercise of such discretion will result in the investment objective of the Sub-Fund being achieved. Investors should also note that in certain cases, none of the Manager, the Sub-Fund or the Unitholders has any voting rights with respect to Securities held by the Sub-Fund.

**Tracking Error Risk.** The Sub-Fund only holds a representative sample of Securities that represents the profile of the Index and may invest in RMB-denominated bonds not included in its Index. The number of Index constituents invested by the Sub-Fund depends on the fund size of the Sub-Fund. The Net Asset Value of the Sub-Fund may not have exactly the same net asset value of the Index. Factors such as the fees and expenses of Sub-Fund, the investments of Sub-Fund not matching exactly the Securities which make up the Index (e.g. where it uses representative sampling), an inability to rebalance the Sub-Fund's holdings of Securities in response to changes to the Securities which make up the Index, rounding of Security prices,



changes to the Index and regulatory policies that may affect the Manager's ability to achieve close correlation with the Index. This may cause the Sub-Fund's returns to deviate from the Index. Further, the fact that the Manager is adopting a representative sampling strategy may lead to a greater risk of tracking error.

**Operational and Settlement Risks.** Trading errors are an intrinsic factor in any complex investment process, and will occur, notwithstanding the execution of due care and special procedures designed to prevent such errors. Such trade errors may have adverse consequences (for example, due to an inability to correct effectively such an error when detected).

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

To the extent that Sub-Fund transacts in the inter-bank bond market in the PRC mainland, the Sub-Fund may also be exposed to risks associated with settlement procedures and default of counterparties. Many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearing house, may not be available in connection with transactions on the inter-bank bond market which is an over-the-counter market. All trades settled through CCDC are on delivery versus payment basis i.e. the Sub-Fund will only pay the counterparty upon receipt of the Securities. If a counterparty defaults in delivering the Securities, the trade may be cancelled and the Sub-Fund may need to find another counterparty to complete the transaction, which may be at a less favourable price and thus adversely affecting the value of the Sub-Fund. Any transaction via exchange markets may also be subject to settlement delays.

**Transaction Counterparty Risk.** Institutions, such as banks, securities firms and asset managers, may enter into transactions with the Sub-Fund in relation to the sale and purchase of assets or Securities. Bankruptcy, fraud, regulatory sanction or a refusal to complete a transaction at one of these institutions could significantly impair the operational capabilities or the capital position of the Sub-Fund and as a result adversely impact the value of the Sub-Fund and investors may suffer a loss as a result. The Sub-Fund intends to attempt to limit its investment transactions to well-capitalised and established banks and securities firms in an effort to mitigate such risks. There can be no guarantee that transactions between such counterparties will always be completed in the manner contemplated by, and favourable to, the Sub-Fund.

**Provision of Indemnity Risk.** Under the Trust Deed, the Trustee and the Manager have the right to be indemnified for any liability or expense incurred by them in performing their respective duties except as a result of their own negligence, default or breach of duty or trust or fraud. Any reliance by the Trustee or the Manager on the right of indemnity would reduce the assets of the affected Sub-Fund or the Trust and the value of the Units.

**Operating Cost Risk.** There is no assurance that the performance of the Sub-Fund will achieve its investment objective. The level of fees and expenses payable by the Sub-Fund will fluctuate in relation to the Net Asset Value. Although the amounts of certain ordinary expenses of the Sub-Fund can be estimated, the growth rate of the Sub-Fund, and hence its Net Asset Value, cannot be anticipated. Accordingly, no assurance can be given as to the performance of the Sub-Fund or the actual level of its expenses.

**Representative Sampling Risk.** With a representative sampling strategy, the Sub-Fund does

not hold all of the Securities in its Index and may invest in bonds and other Securities not included in its Index, provided that the sample closely reflects the overall characteristics of the Index which the Manager believes will help the Sub-Fund achieve its investment objective. The Securities held by the Sub-Fund may also be over or underweight relative to the Securities in its Index. It is therefore possible that the Sub-Fund may be subject to larger tracking error.

**Cross Class Liability Risk.** The Trust Deed allows the Trustee and the Manager to issue Units in separate classes. The Trust Deed provides for the manner in which liabilities are to be attributed across the various classes within the Sub-Fund (liabilities are to be attributed to the specific class of the Sub-Fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant class (in the absence of the Trustee granting that person a security interest). However, the Trustee will have a right of reimbursement and indemnity out of the assets of the Trust which may result in Unitholders of 1 class of Units of the Sub-Fund being compelled to bear the liabilities incurred in respect of another class of the Sub-Fund which Units such Unitholders do not themselves own if there are insufficient assets attributable to that other class to satisfy the amount due to the Trustee. Accordingly, there is a risk that liabilities of 1 class of the Sub-Fund may not be limited to that particular class and may be required to be paid out of one or more other classes of the Sub-Fund.

**Cross Sub-Fund Liability Risk.** The assets and liabilities of each sub-fund under the Trust will be tracked, for bookkeeping purposes, separately from the assets and liabilities of any other sub-funds under the Trust, and the Trust Deed provides that the assets of each sub-fund should be segregated from each other. There is no guarantee that the courts of any jurisdiction will respect the limitations on liability and that the assets of any particular sub-fund will not be used to satisfy the liabilities of any other sub-fund.

**Past Performance Risk.** As a result of the change in underlying index of the Sub-Fund on 24 June 2019, past performance of the Sub-Fund prior to 24 June 2019 is achieved under circumstances which will no longer apply from 24 June 2019. Investors should exercise caution when considering the past performance of the Sub-Fund prior to 24 June 2019.

#### **Market Trading Risks Associated with the Sub-Fund**

**Unit Liquidity Risk.** Because RMB counter Units are traded in RMB, such Units may be inherently less liquid than other Securities which are listed on the SEHK, including other ETFs, due to the relatively limited supply of RMB (CNH) outside the PRC mainland as well as levels of demand for RMB cash and greater barriers for investors generally in trading RMB denominated SEHK listed products.

#### **Dual-Counter Trading Risks**

**Dual-Counter Risk.** The Dual-Counter arrangement adopted by the Sub-Fund may bring additional risks for investment in the Sub-Fund and may make such investment riskier than investment in single counter exchange traded funds. For example where for some reason there is a settlement failure on an inter-counter day trade if the Units of one counter are delivered to CCASS at the last settlement on a trading day, there may not be enough time to transfer the Units to the other counter for settlement on the same day.

Moreover, where there is a suspension of the inter-counter transfer of Units among the HKD counter and the RMB counter for any reasons, for example, operational or systems interruption, Unitholders will only be able to trade their Units in the currency of the relevant counter. Accordingly it should be noted that inter-counter transfers may not always be available. Investors are recommended to check the readiness of their brokers/intermediaries in respect of the Dual-Counter trading and inter-counter transfer.

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

**Inter-counter trading Risk.** Although an investor may buy from one counter and sell the same on the other counter in the same day, it is possible that some brokers/intermediaries and CCASS Participants may not be familiar with and may not be able to (i) buy Units in one counter and to sell Units in the other, (ii) carry out inter-counter transfers of Units, or (iii) trade units in the RMB counter and HKD counter at the same time. In such case (i) to (iii), another broker, intermediary or CCASS Participant may need to be used. This may inhibit or delay dealing in the RMB traded Units and HKD traded Units and may mean investors may only be able to trade their Units in one currency. Investors are recommended to check the readiness of their brokers/intermediaries in respect of the Dual-Counter trading and inter-counter transfers.

Investors should therefore consult their brokers/intermediaries on the services that the brokers/intermediaries may provide in this regard along with the associated risks and fees. In particular, some brokers/intermediaries may not have in place systems and controls to facilitate inter-counter trading and/or inter-counter day trades.

**Difference in Trading Prices Risk.** There is a risk that due to different factors such as market liquidity, market supply and demand in the respective counters and the exchange rate among RMB and HKD (in both onshore and offshore markets), the market price on the SEHK of Units traded in HKD may deviate significantly from the market price on the SEHK of Units traded in RMB. The trading price of HKD traded Units or RMB traded Units is determined by market forces and so will not be the same as the trading price of Units multiplied by the prevailing rate of foreign exchange. Accordingly when selling Units traded in HKD or buying Units traded in HKD, an investor may receive less or pay more than the equivalent amount in RMB if the trade of the relevant Units is in RMB and vice versa. There can be no assurance that the price of Units in each counter will be equivalent.

**Currency Exchange Risk.** Investors who bought Units on the HKD counter may be subject to currency exchange risk as the assets of the Sub-Fund are denominated in RMB and the Net Asset Value of the Sub-Fund will be calculated in RMB.

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

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

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



**Reliance on the Manager Risk.** Unitholders must rely upon the Manager in formulating the investment strategies of the Sub-Fund and the performance of the Sub-Fund is largely dependent on the services and skills of its officers and employees as well as the utilisation of its QFI status. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case of the insolvency of the Manager, the Trustee may not find successor managers with the requisite skills, qualifications and QFI status quickly (or at all) and the new appointment may not be on equivalent terms or of similar quality.

**Reliance on the Investment Advisor Risk.** The Investment Advisor shall provide investment advice to the Manager in respect of the Sub-Fund, including but not limited to liquidity considerations of the bonds which the Sub-Fund invests when adopting the representative sampling strategy, in pursuit of the investment objective and in accordance with the investment strategy as set out in the Prospectus of the Sub-Fund, subject to the control and review of the Manager. Any disruption in the communication with or assistance from the Investment Advisor or a loss of service of the Investment Advisor or any of its key personnel might adversely affect the operations of the Sub-Fund.

**Reliance on Market Makers Risk.** Although the Manager will use its best endeavours to put in place arrangements so that at least 1 Market Maker will maintain a market for the Units traded in each counter, and that at least 1 market maker for each counter gives not less than 3 months' notice prior to terminating market making under the relevant market making agreement, there may be circumstances such as the revocation of the relevant market making approvals or registration or other changes beyond the control of the Manager that may result in the sudden loss of a market maker for the Sub-Fund. It should be noted that liquidity in the market for the Units may be adversely affected if there is no Market Maker for the RMB traded Units, HKD traded Units. There may be less interest by potential Market Makers in making a market in Units denominated or traded in RMB. Further, any disruption to the availability of RMB may adversely affect the capability of Market Makers in providing liquidity for RMB traded Units. It is possible that there is only 1 SEHK Market Maker to a counter or to the Sub-Fund or the Manager may not be able to engage a substitute Market Maker within the termination notice period of a Market Maker. Further, due to the lack of hedging tools such as treasury bond futures, it may be more difficult for the Manager to engage a substitute Market Maker and therefore the risk of not being able to identify and engage a substitute market maker is higher than that of other ETFs that invest in more liquid Securities and developed markets. There is also no guarantee that any market making activity will be effective.

**Reliance on Participating Dealers.** The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of Securities through the CCASS is disrupted or the Index is not compiled or published. In addition, Participating Dealers will not be able to issue or redeem Units if some other event occurs that impedes the calculation of the Net Asset Value of the Sub-Fund or disposal of the Sub-Fund's Securities cannot be effected. Since the number of Participating Dealers at any given time will be limited, and there may even be only 1 Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

**Effect of Redemptions Risk.** If significant redemptions of Units are requested by the Participating Dealers, it may not be possible to liquidate the Sub-Fund's investments at the time such redemptions are requested or the Manager may be able to do so only at prices which the Manager believes does not reflect the true value of such investments, resulting in an adverse effect on the return to investors. Where significant redemptions of Units are requested by the Participating Dealers, the right of Participating Dealers to require redemptions in excess

of 10% of the total number of Units in the Sub-Fund then in issue (or such higher percentage as the Manager may determine and as permitted by the SFC) may be deferred, or the period for the payment of redemption proceeds may be extended. In addition, the Manager may also in certain circumstances suspend the determination of the Net Asset Value of the Sub-Fund for the whole or any part of any period. Please see the section on “Determination of Net Asset Value” for further details.

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

**Termination Risk.** The Sub-Fund may be terminated early under certain circumstances as set out in the section “Termination”, for example where the Index is no longer available for benchmarking or if the size of the Sub-Fund falls below RMB150 million. Upon the Sub-Fund being terminated, the Trustee will distribute the net cash proceeds (if any) derived from the realisation of the investments comprised in the Sub-Fund to the Unitholders in accordance with the Trust Deed. Any such amount distributed may be more or less than the capital invested by the Unitholder. A Unitholder who purchases Units at a time when the market price is at a premium to Net Asset Value may therefore be unable to recover the premium in the event the Sub-Fund is terminated.

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

**Cost of Trading Units Risk.** Buying or selling Units involves various types of costs that apply to all Securities transactions. When trading Units through a broker investors will incur a brokerage commission or other charges imposed by the broker. In addition, investors on the secondary market, will also incur the cost of the trading spread, which is the difference between what investors are willing to pay for the Units (bid price) and the price they are willing to sell Units (ask price). Frequent trading may detract significantly from investment results and an investment in Units may not be advisable particularly for investors who anticipate

regularly making small investments. Investors may pay more than the Net Asset Value per Unit when buying Units on the SEHK and may receive less than the Net Asset Value per Unit when selling Units on the SEHK.

**Suspension of Trading Risk.** Investors and potential investors will not be able to buy, nor will investors be able to sell Units on the SEHK during any period in which trading of the Units is suspended. The SEHK may suspend the trading of Units whenever the SEHK determines that it is appropriate in the interests of a fair and orderly market to protect investors. The Manager may, in accordance with The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, request for the trading of Units to be suspended. Any such suspension would depend on the SEHK's agreement to the suspension. The subscription and redemption of Units may also be suspended if the trading of Units is suspended.

**Insufficiency of Duties and Charges Risk.** A preset spread, included in Duties and Charges, related to subscription or redemption price calculation in a cash creation or cash redemption may be determined prior to trading of the underlying Securities to cover estimated trading costs. If such spread is narrower than the actual associated trading costs, the Net Asset Value of the Sub-Fund will be adversely affected.

**Non-guaranteed Investment Risk.** The Sub-Fund is not principal guaranteed and the purchase of Units is not the same as investing directly in the Index Securities comprised in the Index. The instruments invested by the Sub-Fund may fall in value and therefore investments in the Sub-Fund may suffer losses.

#### **Risks Associated with the Index**

**The Index is Subject to Fluctuations Risk.** The performance of the Units should, before expenses, correspond closely with the performance of the Index. If the Index experiences volatility or declines, the price of the Units will vary or decline accordingly.

**Composition of and Weightings in the Index May Change Risk.** The Treasury Bonds and Policy Bank Bonds which comprise the Index are changed by the Index Provider from time to time. The price of the Units may rise or fall as a result of such changes. The weighting or composition of the Securities owned by the Sub-Fund would be changed as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Index as its constituents change from time to time, and not necessarily the way it is comprised at the time of an investment in the Units.

**Licence to use Index May be Terminated Risk.** The Manager is granted a licence by the Index Provider to use the Index to create the Sub-Fund based on the Index and to use certain trade marks and any copyright in the Index. The Sub-Fund may not be able to fulfill its objective and may be terminated if the licence agreement is not renewed after its initial 2 year term, or terminated early by the Index Provider upon 90 days' prior written notice to the Manager. The Sub-Fund may also be terminated if the Index Provider has given 90 days' prior written notice to the Manager to discontinue the Index and there is no replacement or substitute index made available to the Manager. The Index Provider and the Manager (and its Connected Persons) are independent of each another.

**Compilation of Index Risk.** The Securities of the Index are determined and composed by the Index Provider without regard to the performance of the Sub-Fund. The Sub-Fund is not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider does not make any representation or warranty, express or implied, to investors in the Sub-Fund or other persons regarding the advisability of investing in Securities generally or in the Sub-Fund

particularly. The Index Provider has no obligation to take the needs of the Manager or investors in the Sub-Fund into consideration in determining, composing or calculating the Index.

There is no assurance that the Index Provider will compile the Index accurately, or that the Index will be determined, composed or calculated accurately and index providers do not generally provide any warranty or accept any liability in relation to the quality, accuracy or completeness of data in respect of their benchmark indices, nor any guarantee that the published indices will be in line with their described benchmark index methodologies. Errors in respect of the quality, accuracy and completeness of the data may occur from time to time and may not be identified and corrected for a period of time, in particular where the indices are less commonly used. During a period where the Index contains incorrect constituents, the Sub-Fund tracking such published Index would have market exposure to such constituents. As such, errors may potentially result in a negative or positive performance impact to the Sub-Fund and the Unitholders.

Apart from scheduled rebalances, the Index Provider may carry out additional ad hoc rebalances to their benchmark indices in order, for example, to correct an error in the selection of index constituents. Where the Index of the Sub-Fund is rebalanced and the Sub-Fund in turn rebalances its portfolio to bring it in line with its Index, any transaction costs and market exposure arising from such portfolio rebalancing will be borne by the Sub-Fund and, by extension, its Unitholders.

Therefore, errors and additional ad hoc rebalances carried out by the Index Provider to the Index may increase the costs and market exposure risk of the Sub-Fund.

In addition, the process and the basis of computing and compiling the Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the Index Provider without notice. Consequently there can be no guarantee that the actions of the Index Provider will not prejudice the interests of the Sub-Fund, the Manager or investors.

## **Regulatory Risks**

**Withdrawal of SFC Authorisation Risk.** The Sub-Fund has been authorised as a collective investment scheme under the Code by the SFC pursuant to Section 104 of the SFO. Authorisation by the SFC is not a recommendation or endorsement of the Sub-Fund nor does it guarantee the commercial merits of a product 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 authorisation of the Sub-Fund or impose such conditions as it considers appropriate. Without limiting the foregoing, the SFC may withdraw authorisation where the SFC no longer considers the Index acceptable. If the Manager does not wish the Sub-Fund to continue to be authorised by the SFC, the Manager will give Unitholders at least 3 months' notice of the intention to seek SFC's withdrawal of such authorisation. In addition, any authorisation granted by the SFC may be subject to certain conditions which may be withdrawn or varied by the SFC. If as a result of such withdrawal or variation of conditions it becomes illegal, impractical or inadvisable to continue the Sub-Fund, the Sub-Fund will be terminated.

**Hong Kong and PRC Mainland Regulatory Policies Risk.** The Hong Kong or PRC mainland government or the Hong Kong or PRC mainland regulators may intervene in the financial markets. These changes may be introduced suddenly and in accordance with market conditions. Such changes may have a negative impact on existing funds such as the Sub-Fund including without limitation, an adverse cost impact which may materially prejudice existing

investors of the Sub-Fund. Further, any such change in policies may also negatively impact the incentive of the counterparties to participate in the Sub-Fund and thereby decreasing the liquidity of the Sub-Fund. In order to maintain its authorisation status and to continue to list on the SEHK, the Sub-Fund will be required to comply with such rules and policies at all times. To the extent that any such change in rules or policies adversely impact the Sub-Fund, investors may suffer accordingly.

**Units May be Delisted from the SEHK Risk.** The SEHK imposes certain requirements for the continued listing of Securities, including the Units, on the SEHK. Investors cannot be assured that the Sub-Fund will continue to meet the requirements necessary to maintain the listing of Units on the SEHK or that the SEHK will not change the listing requirements. If the Units are delisted from the SEHK, Unitholders will have the option to redeem their Units by reference to the Net Asset Value of the Sub-Fund. Where the Sub-Fund remains authorised by the SFC, such procedures required by the Code will be observed by the Manager.

**Legal and Regulatory Risk.** Governments and regulators may intervene in the financial markets, such as by the imposition of trading restrictions. This may affect the operation and market making activities of the Sub-Fund, and may have an unpredictable impact on the Sub-Fund. The Sub-Fund must comply with regulatory constraints or changes in the laws affecting it or its investment restrictions which might require a change in the investment policy and objectives followed by the Sub-Fund. Furthermore, such change in the laws may have an impact on the market sentiment which may in turn affect the performance of the Index and as a result the performance of the Sub-Fund. It is impossible to predict whether such an impact caused by any change of law will be positive or negative for any Sub-Fund. In the worst case scenario, a Unitholder may lose all its investments in the Sub-Fund.

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

**Risks associated with Foreign Account Tax Compliance Act.** Sections 1471 – 1474 (referred to as “FATCA”) of the US Internal Revenue Code of 1986, as amended (“IRS Code”) will impose new rules with respect to certain payments to non-United States persons, such as the Trust and the Sub-Funds, including interest and dividends from securities of US issuers and gross proceeds from the sale of such securities. All such payments may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the US Internal Revenue Service (“IRS”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. To avoid such withholding on payments made to it, a foreign financial institution (an “FFI”), such as the Trust and the Sub-Funds (and, generally, other investment funds organised outside the US), generally will be required to enter into an agreement (an “FFI Agreement”) with the US IRS under which it will agree to identify its direct or indirect owners who are United States persons and report certain information concerning such United States person owners to the US IRS.

In general, an FFI which does not sign an FFI Agreement or is not otherwise exempt will face a punitive 30% withholding tax on all “withholdable payments” derived from US sources, including dividends, interest and certain derivative payments made on or after 1 July 2014. In addition, starting from 1 January 2017, gross proceeds such as sales proceeds and returns of principal derived from stocks and debt obligations generating US source dividends or interest will be treated as “withholdable payments.” It is expected that certain non-U.S. source payments attributable to amounts that would be subject to FATCA withholding (referred to as “passthru payments”) will also be subject to FATCA



withholding, though the definition of “passthru payment” in U.S. Treasury Regulations is currently pending.

The Hong Kong government has announced that Hong Kong will enter into an intergovernmental agreement with the US (“IGA”) for the implementation of FATCA, adopting “Model 2” IGA arrangements. Under this “Model 2” IGA arrangements, FFIs in Hong Kong (such as the Trust and the Sub-Funds) would be required to enter into the FFI Agreement with the US IRS, register with the US IRS and comply with the terms of FFI Agreement. Otherwise they will be subject to a 30% withholding tax on relevant US-sourced payments to them.

As an IGA has been reached in substance between Hong Kong and the US, it is expected that FFIs in Hong Kong (such as the Trust and the Sub-Funds) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax; and (ii) will not be required to withhold tax on payments to recalcitrant accounts (i.e. accounts of which the holders do not consent to FATCA reporting and disclosure to the US IRS) or close those recalcitrant accounts (provided that information regarding such recalcitrant account holders is reported to the US IRS), but may be required to withhold tax on payments made to non-compliant FFIs. However, as of the date of this Prospectus, the US and Hong Kong have yet to sign the IGA, and the terms of such IGA may vary from the Model 2 agreement on which the above described expectations are based.

The Trust and each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA and the FFI Agreement to avoid any withholding tax. In the event that the Trust or any Sub-Fund is not able to comply with the requirements imposed by FATCA or the FFI Agreement and the Trust or such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of the Trust or that Sub-Fund may be adversely affected and the Trust or such Sub-Fund may suffer significant loss as a result.

In the event a Unitholder does not provide the requested information and/or documentation, whether or not that actually leads to compliance failures by the Trust or the relevant Sub-Fund, or a risk of the Trust or the relevant Sub-Fund being subject to withholding tax under FATCA, the Manager on behalf of the Trust and each of such relevant Sub-Fund reserves the right to take any action and/or pursue all remedies at its disposal including, without limitation, (i) reporting the relevant information of such Unitholder to the US IRS; (ii) withholding, deducting from such Unitholder’s account, or otherwise collecting any such tax liability from such Unitholder to the extent permitted by applicable laws and regulations; (iii) deeming such Unitholder to have given notice to redeem all his Units in the relevant Sub-Fund; and/or (iv) bringing legal action against such Unitholder for losses suffered by the Trust or the relevant Sub-Fund as a result of such withholding tax. The Manager in taking any such action or pursuing any such remedy shall act in good faith and on reasonable grounds. As at the date of this Prospectus, all Units in the investment funds are registered in the name of HKSCC Nominees Limited. It is the Manager’s understanding that Hong Kong Securities Clearing Company Limited has completed registration with the IRS as a “Reporting Financial Institution under a Model 2 IGA.

The Sub-Fund has been registered with the IRS as at the date of this Prospectus.

Each Unitholder and prospective investor should consult with his own tax advisor as to the potential impact of FATCA in its own tax situation.

### **Risk Factors Relating to the PRC mainland**

**Country Concentration Risk.** The exposure of the Sub-Fund is concentrated in the PRC mainland and may be more volatile than funds adopting a more diversified strategy. The Index

is concentrated in Treasury Bonds and Policy Bank Bonds and so the Sub-Fund may be adversely affected by the performance of those Securities, may be subject to increased price volatility and may be more susceptible to adverse economic, market, political or regulatory event affecting the PRC mainland generally.

**PRC Mainland Economic, Political and Social Conditions as well as Government Policies Risk.** The economy of the PRC mainland, which has been in a state of transition from a planned economy to a more market oriented economy, differs from the economies of most developed countries in many respects, including the level of government involvement, its state of development, its growth rate, control of foreign exchange, and allocation of resources.

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

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

Political changes, social instability and adverse diplomatic developments in the PRC mainland could result in the imposition of additional government restrictions affecting the market for Treasury Bonds and Policy Bank Bonds.

**PRC Mainland Laws and Regulations Risk.** The PRC mainland legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have no precedent value. Since 1979, the PRC mainland government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce taxation and trade. Two examples are the promulgation of the Contract Law of the PRC mainland to unify the various economic contract laws into a single code, which went into effect on 1 October 1999, and the Securities Law of the PRC mainland, which went into effect on 1 July 1999. However, because these laws and regulations affecting securities markets are relatively new and evolving, and because of the limited volume of published cases and judicial interpretation and their non-binding nature, interpretation and enforcement of these regulations involve significant uncertainties. In addition, as the PRC mainland legal system develops, no assurance can be given that changes in such laws and regulations, their interpretation or their enforcement will not have a material adverse effect on their business operations.

**Restricted Market Risk.** The Sub-Fund may invest in Securities in respect of which the PRC



mainland imposes limitations or restrictions on foreign ownership or holdings. Such legal and regulatory restrictions or limitations may have adverse effects on the liquidity and performance of the Sub-Fund and may affect the Sub-Fund's achievement of its investment objective.

**Legal and Compliance Risk.** Domestic and/or international laws or regulations may change in a way that adversely affects the Sub-Fund. Differences in laws between jurisdictions (i.e. Hong Kong and the PRC mainland) may make it difficult for the Trustee or Manager to enforce legal agreements entered into in respect of the Sub-Fund. The Trustee and the Manager reserve the right to take steps to limit or prevent any adverse effects from changes to laws or their interpretation, including altering investments of or restructuring the Sub-Fund.

**Legal System of the PRC Mainland Risk.** The legal system of the PRC mainland is based on written laws and regulations. Despite the PRC mainland government's effort in improving the commercial laws and regulations, many of these laws and regulations are still at an experimental stage and the implementation of such laws and regulations remains unclear.

**Potential Market Volatility Risk.** Investors should note that the inter-bank bond market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange in which the treasury bonds are traded are undergoing development. Market volatility may result in significant fluctuation in the prices of treasury bonds traded on such markets and thereby changes in the Net Asset Value of the Sub-Fund.

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

**Valuation and Accounting Risk.** Investors should note that, under IFRS, establishment costs should be expensed as incurred. However for the purpose of calculating of net asset value for subscription and redemption purposes, establishment costs are to be amortised over a period of five years, which may lead to a different valuation had the accounting been in accordance with IFRS. The Manager has considered the impact of such non-compliance and does not expect this issue to affect the results and the calculation of the Net Asset Value of the Sub-Fund materially. To the extent that the valuation or accounting basis adopted by the Sub-Fund deviates from IFRS, the Manager may make necessary adjustments in the annual financial statements to comply with IFRS. Any such adjustments will be disclosed in the annual financial reports, including a reconciliation note to reconcile values arrived at by applying the Trust's valuation rules.

**Taxation in the PRC Mainland Risk.** The PRC mainland government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the Sub-Fund's return.

**PRC mainland withholding taxation risk.** A Sub-Fund that invests in PRC mainland Securities will do so through the Manager's (which is a public Hong Kong tax resident) QFI status. Under the Arrangements between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the "Arrangement"), certain relief is applicable to Hong Kong tax residents. According to the independent professional tax advice, capital gains derived by a Hong Kong tax resident from transfer of debt instrument issued by the PRC mainland government and corporation is eligible for such relief and should not be taxable in Mainland China. The aforesaid capital gain tax exemption

will only apply if approval is obtained from the PRC mainland tax authorities. Before a Hong Kong tax resident can enjoy relief under the Arrangement, a Hong Kong Tax Resident Certificate (“HKTRC”) issued by the Inland Revenue Department (“IRD”) should be submitted to the relevant PRC mainland tax authority for this purpose. As at the date of this Prospectus, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the PRC mainland tax authorities enforce the collection of Withholding Income Tax (“WIT”) on capital gains and require the Sub-Fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the Sub-Fund. In light of the uncertainty on the income tax treatment on capital gains and in order to meet this potential tax liability for capital gains, the Manager reserves the right to provide for WIT on such gains or income and withhold the tax for the account of the Sub-Fund. After careful consideration of the Manager’s assessment and having taken and considered independent professional tax advice relating to the Sub-Fund’s eligibility to benefit from the Arrangement, and in accordance with such advice, the Manager holds a view that the Sub-Fund is a Hong Kong tax resident for the purpose of the Arrangement and should be able to enjoy the WIT exemption on gross capital gains derived from the disposal of PRC mainland Securities under the Arrangement. In this connection, the Manager, having taken and considered the independent professional tax advice and in accordance with such advice, has determined that no WIT provision will be made on the gross realized and unrealized capital gains derived from the disposal of PRC mainland Securities.

It should be noted that there are uncertainties in relation to the Manager’s determination of WIT provision, including

- The Arrangement may be changed in the future and the Sub-Fund may ultimately be required to pay WIT on capital gains.
- As at the date of this Addendum, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the PRC mainland tax authorities enforce the collection of WIT on capital gains and require the Sub-Fund to provide a HKTRC, the Manager will apply for a HKTRC on behalf of the Sub-Fund. Whether the Manager is able to obtain a HKTRC on behalf of the Sub-Fund is subject to prevailing practice of Hong Kong and/or PRC mainland tax authorities. The Sub-Fund may need to apply with the IRD for a HKTRC on an annual basis, which is subject to the assessment of the IRD. There is a risk that the Manager will not be able to obtain a HKTRC on behalf of a Sub-Fund.
- To date, the PRC mainland tax authorities have not sought to enforce WIT collection on capital gains derived by QFIs such as the Manager for the Sub-Fund. If the PRC mainland tax authorities start to enforce WIT collection on capital gains, the relief under the Arrangement is still subject to the final approval of the relevant PRC mainland tax authorities and the Manager is not aware of any successful cases for tax treaty capital gain exemption approval for QFIs. Even if the Manager, in accordance with the independent professional tax advice, believes that the Sub-Fund should be eligible for such relief, the PRC mainland tax authorities may ultimately hold a different view.

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

There is no provision made on the gross unrealised and realised capital gains derived from disposal of PRC mainland Securities. In the event that actual tax is collected by the State Administration of Taxation and the Sub-Fund is required to make payments reflecting tax liabilities for which no

provision has been made, the Net Asset Value of the Sub-Fund may be adversely affected as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund. Please refer to the sub-section of “PRC mainland” under “Taxes” for further information in this regard.

Investors should note that such provision may be excessive or inadequate to meet actual PRC mainland tax liabilities on investments made by the Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant PRC mainland tax authorities. In addition, the Manager intends to make relevant provision on interest from PRC mainland Securities if the WIT is not withheld at source at the time when such income is received. It should also be noted that the actual applicable tax rates imposed by SAT may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC mainland tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may suffer more than the tax provision amount as the Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT’s ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager’s overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision. Please refer to the sub-section on “PRC mainland Taxation” for further information in this regard.

# MANAGEMENT OF THE TRUST

## **The Manager**

The Manager is CSOP Asset Management Limited.

The Manager was established in January 2008 and is licensed to carry on Types 1 (dealing in securities), Types 4 (advising on securities) and 9 (asset management) regulated activities under the SFO with CE Number ARN075.

The Manager, a subsidiary of China Southern Fund Management Co. Limited, was the first Hong Kong subsidiary set up by a PRC mainland fund house to carry out asset management and securities advisory activities in Hong Kong.

The Manager is dedicated to serving investors as a gateway for investment between Mainland China and the rest of the world. For inbound investment, the Manager boasting local expertise makes the ideal adviser or partner of international investors. For outbound investment, it is keen to introduce suitable overseas investment opportunities to domestic PRC mainland institutional and retail investors. The Manager provides discretionary management services and advisory services to both institutional investors and investment funds.

## **The Directors of the Manager**

The directors of the Manager are Yi Zhou, Chen Ding, Gaobo Zhang, Xiaosong Yang, Zhongping Cai, Zhiwei Liu and Xiuyan Liu.

### ***Yi Zhou***

Mr. Zhou holds a degree in Computer Communication from the Nanjing University of Posts and Telecommunications and has 11 years of experience in the securities industry. Mr. Zhou once worked on technology management in the telecommunications center of Jiangsu Posts & Telecommunications Bureau and administrative management at Jiangsu Mobile Communication Co., Ltd. He served as the Chairman of the Board of Directors at Jiangsu Beier Co., Ltd. and Nanjing Xinwang Tech Co., Ltd., and the Deputy General Manager of Shanghai Beier Fortune Communications Company.

Mr. Zhou is the Chairman of the Board of Directors, President, and party secretary of Huatai Securities Co., Ltd. Mr. Zhou joined Huatai Securities in August 2006 and served as the Director and President of Huatai Securities Limited Liability Company and the Director, President, and deputy party secretary of Huatai Securities Co., Ltd.

### ***Chen Ding, MH***

Ms. Ding joined CSOP Asset Management Limited in 2010 and is the Chief Executive Officer, overseeing the overall business of the Manager.

Ms. Ding, from 2003 to June 2013, was the Assistant CEO and Managing Director of China Southern Asset Management Co. Ltd., one of the largest fund management companies in Mainland China with assets under management of RMB160 billion (as at 30 June 2013), where she was accountable for international strategic planning, fund product development and relationship management with various distribution channels and industry regulators for the company. She established and managed the first QDII mutual fund (assets under management RMB10 billion as at 30 June 2012), which she was also a member of the Investment Management Committee, from

2007 to June 2013. She was responsible for setting the investment policies and strategies of the fund, monitoring market, portfolio and systematic risk, asset allocation and stock selection in addition to reviewing and monitoring portfolio performance of the fund. She supervised five portfolio managers and two analysts.

Ms. Ding is the Chairperson of Chinese Asset Management Association of Hong Kong Limited, which promotes professional standards of practice in the fund management industry. She is also the Deputy Chairperson of the Chinese Securities Association of Hong Kong Company Limited. Ms. Ding was appointed under authority delegated by the Chief Executive and the Financial Secretary, as a member to the Securities and Futures Appeals Tribunal as of 1 April 2013. She was also appointed by the Securities and Futures Commission as a member of the Product Advisory Committee for two years with effect from 1 April 2014, a member to the Process Review Panel since 1 November 2014 and a member of the Advisory Committee since 1 June 2015. Ms. Ding is also a member of the Financial Reporting Review Panel of the Financial Reporting Council as well as a member of the New Business Committee of the Hong Kong Financial Services Development Council.

Prior to joining China Southern Asset Management Co. Ltd., Ms. Ding served from 2001 to 2003 as an Associate General Manager of China Merchants Securities Co. Ltd. in the PRC mainland. She assumed key roles in building solid management infrastructure and repositioning the asset management business of the company.

Ms. Ding was also the Investment Manager of ML Stern & Co., in California, United States, which is a securities house. She was responsible for accounts management, where she provided investment solutions to high net worth and institutional investors; customer relationship development, where she conducted company research and profiling; communicated with sell-side analysts and prepared investment analyses for clients, and participated in the innovation of annuity product rollouts.

Ms. Ding holds a Master's Degree in Business Administration from the San Francisco State University in the United States and a Bachelor degree in Electrical Engineering from the Sichuan University in the PRC mainland.

### ***Gaobo Zhang***

Mr. Zhang is a founding partner and the Chief Executive Officer of Oriental Patron Financial Group and is responsible for formulating the investment strategies, monitoring the investment performance and approving investment decisions. Mr. Zhang was appointed as an executive director and the Chief Executive Officer of Wealthking Investments Limited, a company listed on the SEHK, in February 2003. He joined the Manager in 2008.

From February 1988 to February 1991, Mr. Zhang was a deputy chief of the Policy Division of Hainan Provincial Government. From 1991 to 1993, Mr. Zhang was deputy chief of Financial Markets Administration Committee of the PBOC Hainan Branch. He was chairman of Hainan Stock Exchange Centre from 1992 to 1994. Mr. Zhang is also an independent non-executive director of Beijing Enterprises Water Group Limited, a company listed on the SEHK and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange.

Mr. Zhang obtained a Bachelor's degree in Science from Henan University in the PRC mainland in 1985 and later graduated from the Peking University in the PRC mainland with a Master's degree in Economics in 1988.

### ***Xiaosong Yang***

Mr. Yang is the Chief Executive Officer of China Southern Asset Management Co., Ltd where Mr. Yang has overall responsibility for the business. He joined China Southern Asset Management Co., Ltd as the Head of Compliance in 2012.

Prior to joining China Southern Asset Management Co. Ltd., Mr. Yang worked for China Securities Regulatory Commission where he served as the Deputy General Manager of the Supervision Department. Mr. Yang holds a Master's Degree in Accounting from Renmin University of China in the PRC mainland.

### ***Zhongping Cai***

Mr. Cai is the Chief Financial Officer of China Southern Asset Management Co. Ltd. where he has the overall responsibility for supervising the finance unit.

Prior to joining China Southern Asset Management Co. Ltd., Mr. Cai served as the Chief Financial Officer of UBS SDIC in Mainland China. He joined the Manager in 2014.

Mr. Cai holds a Master's Degree from Zhongnan University of Economics and Law in PRC mainland.

### ***Zhiwei Liu***

Dr. Liu was appointed as a non-executive Director of Wealthking Investments Limited in December 2015 and was re-designated as an executive Director in June 2016. Further, he has assumed an additional role as the president and he has been serving as a member of the corporate governance committee of Wealthking Investments Limited since June 2016. Dr. Liu is responsible for building and expanding the investor relations and public relations platform of Wealthking Investments Limited to support the Group's domestic and international strategies. He is the Chairman of Shanghai Chunda Asset Management Co., Ltd. Dr. Liu served as the Vice-Chairman of Xi'an International Trust Co., Ltd from 2008 to 2011. He also served as a general manager of the merger and acquisition department of Guosen Securities Co., Ltd from 1997 to 1998.

Dr. Liu obtained a bachelor's degree in Industrial Management Engineering from Zhe Jiang University in 1989. He furthered his studies in the PBOC between 1989 and 1992 and obtained a master's degree in International Finance. In 2007, Dr. Liu obtained a doctoral degree in Economics & Law from Hunan University. He completed a professional programme in Finance CEO from Cheung Kong Graduate School of Business in 2010.

### ***Xiuyan Liu***

Ms. Liu joined China Southern Asset Management Co., Ltd in 2005. Ms. Liu serves as the General Manager of International Business Department and Executive Assistance to Chief Executive Officer of China Southern Asset Management Co., Ltd. She is also the Chairperson of the Board of Director of China Southern Capital Management Co., Ltd.

Prior to joining China Southern Asset Management Co., Ltd, Ms. Liu served as the General Manager of the Legal Department of China Southern Securities Co., Ltd, the Vice President of Walstar Investment Holding Co., Ltd and the Vice President of Chinalin Securities Co., Ltd.

Ms. Liu is a qualified lawyer in Mainland China and holds an EMBA from Peking University in the PRC mainland.



## **The Investment Advisor**

The Manager has appointed ICBC Asset Management (Global) Company Limited (the “**Investment Advisor**”) as its investment advisor of the Sub-Fund pursuant to an investment advisory agreement entered into between the Manager and the Investment Advisor. The Investment Advisor shall provide investment advice to the Manager in respect of the Sub-Fund, including but not limited to liquidity considerations of the bonds which the Sub-Fund invests when adopting the representative sampling strategy, in pursuit of the investment objective and in accordance with the investment strategy as set out in the Prospectus of the Sub-Fund, subject to the control and review of the Manager. The Investment Advisor is independent of the Manager. For the avoidance of doubt, the Investment Advisor will not have any discretionary management powers regarding the Sub-Fund which remain with the Manager.

ICBC Asset Management (Global) Company Limited is an asset management company incorporated in Hong Kong. It was registered as a licensed corporation by the SFC in Hong Kong to carry out advising on securities (Type 4), advising on futures contracts (Type 5) and asset management (Type 9). The Investment Advisor provides professional investment management and advisory services to unit trusts, institutional clients as well as high net worth private individuals. Directors and senior management of the Investment Advisor are reputable and experienced investment professionals with in-depth international financial market knowledge. The Investment Advisor is a wholly owned subsidiary of Industrial and Commercial Bank of China (Asia) Limited. Industrial and Commercial Bank of China (Asia) Limited is the Hong Kong banking business of Industrial and Commercial Bank of China Limited, the largest commercial bank in the PRC mainland. Industrial and Commercial Bank of China (Asia) Limited is principally engaged in banking, financial and other financial related services with focus on retail banking, commercial banking as well as corporate banking business.

The Management Fee is inclusive of the Investment Advisor’s fee and the Manager will pay the fees of the Investment Advisor out of the Management Fee.

## **The Trustee and Registrar**

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited. The Trustee also acts as the Registrar of the Sub-Fund, and provides services in respect of the establishment and maintenance of the register of the Unitholders.

The Trustee was incorporated with limited liability in Hong Kong in 1974 and is registered as a trust company under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) and approved by the Mandatory Provident Funds Scheme Authority as trustee of registered MPF Schemes under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). HSBC Institutional Trust Services (Asia) Limited is an indirectly wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, which is a bank licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

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

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, any of its Connected Persons) to hold as custodian, nominee, agent or delegate, all or any of the investments, assets or other property comprised in the Trust Fund or any of the sub-funds and may empower any such custodian, nominee, agent or delegate to appoint, with the prior consent in writing of the Trustee, co-custodians and/or sub-custodians (each such custodian, nominee, agent, delegate, co-custodian and sub-custodian a



“Correspondent”). The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and on-going monitoring of Correspondents and (b) be satisfied that Correspondents retained remain suitably qualified and competent on an ongoing basis to provide the relevant custodial services to the Sub-Fund(s). The Trustee shall be responsible for the acts and omissions of any Correspondent which is a Connected Person of the Trustee as if the same were the acts or omissions of the Trustee but provided that the Trustee has discharged its obligations set out in (a) and (b) as set out in this paragraph, the Trustee shall not be liable for any act, omission, insolvency, liquidation or bankruptcy of any Correspondent which is not a Connected Person of the Trustee. For the purpose of the foregoing “Correspondent” shall include the Custodian and the PRC Custodian. The PRC Custodian is HSBC Bank (China) Company Limited (please see below). As of the date of this Prospectus, the PRC Custodian is a Connected Person of the Trustee.

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

Subject as provided in the Trust Deed, the Trustee shall not be liable for losses caused by the performance of investments made by the Trust and/or the Sub-Fund.

Subject as provided in the Trust Deed, the Trustee is entitled to be indemnified from the assets of the Trust and/or the Sub-Fund from and against any and all actions, proceedings, liabilities, costs, claims, damages, expenses, including all reasonable legal, professional and other similar expenses (other than any liability to Unitholders imposed under Hong Kong law or resulting from breaches of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates for which the Trustee would be liable under the Trust Deed), which may be incurred by or asserted against the Trustee in performing its obligations or duties in connection with the Trust or the Sub-Fund. Subject to applicable law and the provisions of the Trust Deed, the Trustee shall not, in the absence of breaches of trust through fraud or negligence on the part of the Trustee or any agent, sub-custodian or delegate appointed by the Trustee for which the Trustee would be liable under the Trust Deed, be liable for any losses, costs or damage to the Trust, the Sub-Fund or any Unitholder.

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

The Trustee will not participate in transactions and activities, or make any payments denominated in US dollars, which, if carried out by a US person, would be subject to sanctions by The Office of Foreign Assets Control (the “OFAC”) of the US Department of the Treasury. The OFAC administers and enforces economic sanction programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers by using the blocking of assets and trade restrictions to accomplish foreign policy and national security goals. In enforcing economic sanctions, OFAC acts to prevent “prohibited transactions,” which are described by OFAC as trade or financial transactions and other dealings in which US persons may not engage unless authorised by OFAC or expressly exempted by statute. OFAC has the authority to grant exemptions to prohibitions on such transactions, either by issuing a general licence for certain categories of transactions, or by specific licences issued on a case-by-case basis. HSBC group of companies has adopted a policy of compliance with the sanctions issued by OFAC. As part of its policy, the Trustee may request for additional information if deemed necessary.

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

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

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

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

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

### **The Custodian and PRC Custodian**

The Hongkong and Shanghai Banking Corporation Limited has been appointed to act through its delegate as the Custodian. The Custodian and the PRC Custodian will be responsible for the safe custody of the assets managed by the Manager and acquired in connection with its QFI status within the PRC mainland under the QFI scheme in accordance with the PRC Custody Agreement.

According to the PRC Custody Agreement, the Custodian is entitled to utilise its local subsidiary or its associates within the HSBC group of companies, which as of the date of the PRC Custody Agreement is the PRC Custodian (i.e. HSBC Bank (China) Company Limited), as its delegate for the performance of services under the PRC Custody Agreement. The Custodian will act through its delegate (i.e. HSBC Bank (China) Company Limited), the PRC Custodian, and remains responsible for any acts and omission of the PRC Custodian.

Neither the Custodian nor the PRC Custodian is responsible for the preparation of this Prospectus and they accept no responsibility or liability for the information contained here other than the description under the section “The Custodian and the PRC Custodian”.

### **The Service Agent**

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

### **The Auditor**

The Manager has appointed PricewaterhouseCoopers to act as the auditor of the Trust and each of the Sub-Funds (“Auditor”). The Auditor is independent of the Manager and the Trustee.

### **The Participating Dealers**

A Participating Dealer may act for its own account or for your account as its clients in making Creation Applications and Redemption Applications. The latest list of the Participating Dealers is available at <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC).

### **The Market Makers**

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

Subject to applicable regulatory requirements, the Manager will use its best endeavours to put in place arrangements so that there is at least 1 Market Maker for Units traded in RMB and 1 Market Maker for Units traded in HKD. If the SEHK withdraws its permit to the existing Market Maker(s), the Manager will use its best endeavours to put in place arrangements so that there is at least 1 other Market Maker to facilitate the efficient trading of Units in RMB and 1 other Market Maker to facilitate the efficient trading of Units in HKD. The Manager will use its best endeavours to put in place arrangements so that at least 1 Market Maker per counter is required to give not less than 3 months’ prior notice to terminate market making under the relevant market making agreement. The latest list of Market Makers is available at [www.hkex.com.hk](http://www.hkex.com.hk).

### **Conflicts of Interest**

The Manager, the Trustee, the Custodian and the PRC Custodian may from time to time act as trustee, administrator, registrar, secretary, manager, custodian, investment manager or investment adviser or perform other functions in relation to, or be otherwise involved in or with, other funds and clients which have similar investment objectives to those of the Sub-Fund or any other sub-fund of the Trust.

In addition:–

- (a) the Manager or any of its Connected Persons may, with the consent of the Trustee, deal with the Trust as principal;
- (b) the Trustee, the Manager or the Registrar or any of their Connected Persons may have

banking or other financial relationships with any company or party which is the issuer of Securities, financial instruments or investment products held by the Trust;

- (c) the Trustee, the Manager or the Registrar or any of their Connected Persons may hold and deal in Units or in investments held by the Trust either for their own account or for the account of their customers; and
- (d) the monies of the Trust may be deposited with the Manager, the Trustee or any of their Connected Persons or invested in certificates of deposit or banking instruments issued by any of them.

The Trustee, the Manager or the Registrar or their Connected Persons may, in the course of business, and in providing services to the Trust, have potential conflicts of interest with the Trust the Sub-Fund or any other sub-fund. Each will, at all times, have regard to its obligations to the Trust and to Unitholders and will endeavour to ensure that any such conflicts are resolved fairly.

Conflicts of interest may arise due to the widespread business operations of the Trustee, the Manager, the Sub Adviser, the Registrar and the Service Agent and their respective holding companies, subsidiaries and affiliates. The foregoing parties may effect transactions where those conflicts arise and shall not, subject to the terms of the Trust Deed and applicable laws and regulations, be liable to account for any profit, commission or other remuneration arising. However, all transactions carried out by or on behalf of the Trust (or the Sub-Fund) will be executed on arm's length terms in the best interests of the Unitholders and in compliance with applicable laws and regulations.

#### **Soft Dollars**

The Manager (as well as any of its Connected Persons) will not receive or enter into any soft dollar commissions or arrangements in respect of the management of the Sub-Fund. The Manager (as well any of its Connected Persons) will not retain any cash rebates from any broker or dealer.

# STATUTORY AND GENERAL INFORMATION

## Reports

The financial year-end of the Trust and the Sub-Fund is 31 December every year, commencing on 31 December 2014. Annual financial reports are to be prepared (according to IFRS) and published on the Manager's website within 4 months of each financial year-end. Half-yearly unaudited financial reports are also to be prepared up to the last Dealing Day in June of each year and published on the Manager's website within 2 months of such date. Once these financial reports are made available on the Manager's website, investors will be notified within the relevant timeframe.

The annual financial reports and half-yearly financial reports of the Sub-Fund will be available in English only. Printed copies may be requested free of charge from the Manager by contacting it, as described below under "Notices".

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

## Trust Deed

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

## Indemnities of the Trustee and Manager

The Trustee and the Manager benefit from various indemnities in the Trust Deed. Except as provided under the Trust Deed, the Trustee and the Manager shall be entitled to be indemnified out of, and have recourse to, the Trust Fund in respect of any action, costs, claims, damages, expenses or demands arising directly or indirectly from the proper performance of the Sub-Fund. Nothing in any of the provisions of the Trust Deed shall (i) exempt either the Trustee or the Manager (as the case may be) from or against any liability to Unitholders for breach of trust through fraud or negligence or any liability to Unitholders which by virtue of any Hong Kong rule of law or any other rule of law would otherwise attach to them in respect of any negligence, fraud or breach of trust of which they may be liable in relation to their duties nor (ii) indemnify either against such liability by Unitholders or at Unitholders's expense.

## **Modification of the Trust Deed**

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

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

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

Under the Trust Deed the Manager may, on notice to the Trustee, change the name of the Trust and the Sub-Fund.

## **Meetings of Unitholders**

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

## **Voting Rights**

Unitholders' meetings may be convened by the Manager, by the Trustee or by Unitholders representing at least 10% of the Units in issue, on not less than 21 days' notice. Notice of meetings will be posted to Unitholders and posted on the Manager's website at <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC) and HKEX's website at [www.hkex.com.hk](http://www.hkex.com.hk).

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

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

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

### **Termination**

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

The Manager may terminate the Trust if: (i) after 1 year from the date of the Trust Deed, the aggregate Net Asset Value of all the units in the sub-fund(s) of the Trust is less than RMB150 million; (ii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Trust and which renders the Trust illegal or in the good faith opinion of the Manager, makes it impracticable or inadvisable to continue the Trust; or (iii) within a reasonable time and using commercially reasonable endeavours, the Manager is unable to find a person acceptable to act as the new trustee after deciding to remove the Trustee in accordance with the Trust Deed.

The Manager may, in its absolute discretion, by notice in writing to the Trustee, terminate the Sub-Fund if: (i) after 1 year from the date of establishment of the Sub-Fund, the aggregate Net Asset Value of all the Units is less than RMB150 million; (ii) any law or regulation is passed or amended or any regulatory directive or order is imposed that affects the Sub-Fund and which renders the Sub-Fund illegal or in the good faith opinion of the Manager makes it impracticable or inadvisable to continue the Sub-Fund; (iii) its Index is no longer available for benchmarking or if the Units of the Sub-Fund are no longer listed on the SEHK or any such other stock exchange from time to time determined by the Manager; (iv) at any time, the Sub-Fund ceases to have any Participating Dealer; or (v) the Manager is unable to implement its investment strategy. Further, the Unitholders may at any time authorise termination of the Trust or the Sub-Fund by extraordinary resolution.

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



Fund.

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

### **Distribution Policy**

The Manager may, at its discretion, pay dividend out of capital. The Manager may also, at its discretion, pay dividend out of gross income while all or part of the fees and expenses of the Sub-Fund are charged to/paid out of the capital of the Sub-Fund, resulting in an increase in distributable income for the payment of dividends by the Sub-Fund and therefore, the Sub-Fund may effectively pay dividend out of the capital.

Each Unitholder will receive distributions in RMB (whether holding RMB traded Units or HKD traded Units). In the event that a Unitholder has no RMB account, the Unitholder may have to bear the fees and charges associated with the conversion of such RMB distribution from RMB into HKD. Unitholders are advised to check with their respective brokers concerning arrangements for distributions.

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

Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of the Sub-Fund's capital or effectively out of capital may result in an immediate reduction of the Net Asset Value per Unit.

The composition of dividends payable on the Units (i.e. the percentages of dividends being paid out of (i) net distributable income and (ii) capital), if any, for a rolling 12 month period will be available from the Manager on request and will also be published on the Sub-Fund's website at <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC). The Manager may amend the Sub-Fund's distribution policy with respect to the distribution out of capital of the Sub-Fund subject to the SFC's prior approval and by giving not less than 1 month's prior notice to Unitholders.

### **Documents Available for Inspection**

Copies of the constitutive documents are available for inspection free of charge at the offices of the Manager and copies thereof may be obtained from the Manager upon the payment of a reasonable fee.

### **Part XV of the SFO**

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

the Sub-Fund.

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

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

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

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

### **Liquidity Risk Management**

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

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

The liquidity management policy involves monitoring the profile of investments held by the Sub-Fund on an on-going basis to ensure that such investments are appropriate to the redemption policy as stated under the subsection headed "Redemption of Units through Participating Dealers", and will facilitate compliance with the Sub-Fund's obligation to meet redemption requests. Further, the liquidity management policy includes details on periodic stress testing carried out by the Manager to manage the liquidity risk of the Sub-Fund under normal and exceptional market conditions.

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

### **Index Licence Agreement**

The Manager has entered into a licence agreement with the Index Provider. The term of the licence agreement commenced on 1 March 2019 and will remain in full force and effect for 2 years. The licence agreement may renew automatically for 1 year term, subject to the terms of the licence agreement.

## **Material Changes to the Index**

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

## **Replacement of the Index**

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

- (a) the Index ceasing to exist;
- (b) the licence to use the Index being terminated;
- (c) a new index becoming available that supersedes the existing Index;
- (d) a new index becoming available that is regarded as the market standard for investors in the particular market and/or would be regarded as more beneficial to the Unitholders than the existing Index;
- (e) investing in the Securities comprised within the Index becomes difficult;
- (f) the Index Provider increasing its licence fees to a level considered too high by the Manager;
- (g) the quality (including accuracy and availability of the data) of the Index having in the opinion of the Manager, deteriorated; and
- (h) a significant modification of the formula or calculation method of the Index rendering that index unacceptable in the opinion of the Manager.

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

## **Information Available on the Internet**

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

- (a) this Prospectus and the product key fact statement in respect of the Sub-Fund (as revised from time to time);
- (b) the latest annual financial reports and half-yearly financial reports (in English only);

- (c) any notices for material alterations or additions to this Prospectus or the Sub-Fund's constitutive documents;
- (d) any public announcements made by the Sub-Fund, including information with regard to the Sub-Fund and Index, notices of the suspension of the calculation of the Net Asset Value, changes in fees and the suspension and resumption of trading;
- (e) the near real time indicative Net Asset Value per Unit updated every 15 seconds throughout each Dealing Day in RMB and in HKD;
- (f) the last Net Asset Value of the Sub-Fund in RMB and the last Net Asset Value per Unit of the Sub-Fund in RMB and in HKD;
- (g) the full holdings of the Sub-Fund (updated on a daily basis);
- (h) the tracking difference and tracking error of the Sub-Fund;
- (i) the latest list of the Participating Dealers and Market Makers;
- (j) the constituents of the Index and the level of the Index; and
- (k) the compositions of dividends (i.e. the amounts of dividends paid and the percentages of dividends paid out of (i) net distributable income and (ii) capital), if any, for the last 12 months.

The near real time indicative Net Asset Value per Unit in HKD, under (e) above, and the last Net Asset Value per Unit in HKD, under (f) above, are indicative and for reference only. The near real time indicative Net Asset Value per Unit in HKD are updated during SEHK trading hours. The near real time indicative Net Asset Value per unit in HKD uses a real time HKD:RMB foreign exchange rate– it is calculated using the near real time indicative Net Asset Value per Unit in RMB multiplied by a real time HKD:CNH foreign exchange rate provided by ICE Data Indices when the SEHK is open for trading.

Since the indicative Net Asset Value per Unit in RMB will not be updated when the inter-bank bond market is closed, the change to the indicative Net Asset Value per Unit in HKD (if any) during such period is solely due to the change in the foreign exchange rate.

The last Net Asset Value per Unit in HKD is calculated using the last Net Asset Value per Unit in RMB multiplied by assumed foreign exchange rate using the CNH exchange rate quoted by Reuters at 3:00 p.m. (Hong Kong time) on that Dealing Day.

Real-time updates about the Index can be obtained through other financial data vendors. Investors should obtain additional and the latest updated information about the Index (including without limitation, a description of the way in which the Index is calculated, any change in the composition of the Index, any change in the method for compiling and calculating the Index) via the website <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC) or <https://www.bloomberg.com/professional/product/indices/bloomberg-barclays-indices/#/ucits> (the contents of which have not been reviewed by the SFC). Please refer to the section on “Website information” for the warning and the disclaimer regarding information contained in such website.

## **Notices**

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

***Manager***

2801-2803, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

***Trustee***

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

## **Website Information**

The offer of the Units is made solely on the basis of information contained in this Prospectus. All references in this Prospectus to other websites and sources where further information may be obtained are merely intended to assist you to access further information relating to the subject matter indicated and such information does not form part of this Prospectus. None of the Manager or the Trustee accepts any responsibility for ensuring that the information contained in such other websites and sources, if available, is accurate, complete and/or up-to-date, and no liability is accepted by the Manager and the Trustee in relation to any person's use of or reliance on the information contained in these other websites and sources save, in respect of the Manager, its website <http://www.csopasset.com/rmb-bond-etf> (the contents of which have not been reviewed by the SFC). The information and materials included in these websites have not been reviewed by the SFC or any regulatory body. You should exercise an appropriate degree of caution when assessing the value of such information.

## **Queries and Complaints**

Investors may contact the complaint officer of the Manager if they have any complaints or enquiries in respect of the Trust or the Sub-Fund:

Address: 2801-2803, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

Manager's Customer Service Hotline: +852 3406 5688

Depending on the subject matter of the complaints or enquiries, these will be dealt with either by the Manager directly, or referred to the relevant parties for further handling. The Manager will revert and address the investor's complaints and enquiries as soon as possible. The contact details of the Manager are set out in the paragraph above.

## **Certification for Compliance with FATCA or Other Applicable Laws**

Each Unitholder (i) will be required to, upon demand by the Trustee or the Manager, provide any form, certification or other information reasonably requested by and acceptable to the Trustee or the Manager that is necessary for the Trust or the Sub-Fund (A) to prevent withholding (including, without limitation, any withholding taxes required under FATCA) or qualify for a reduced rate of withholding or backup withholding in any jurisdiction from or through which the Trust or the relevant Sub-Fund receives payments and/or (B) to satisfy reporting or other obligations under IRS Code and the United States Treasury Regulations promulgated under the IRS Code, or to satisfy any obligations relating to any applicable law, regulation or any agreement with any tax or fiscal authority in any jurisdiction (ii) will update or replace such form, certification or other information in accordance with its terms or subsequent amendments, and (iii) will otherwise comply with any reporting obligations imposed by the United States, Hong Kong or any other jurisdiction, including reporting obligations that may be imposed by future legislation.

## **Power to Disclose Information to Tax Authorities**

Subject to applicable laws and regulations in Hong Kong, the Trust, the relevant Sub-Fund, the Trustee or the Manager or any of their authorised person(s) (as permissible under applicable law or regulation) may be required to report or disclose to any government agency, regulatory authority or tax or fiscal authority in any jurisdictions (including but not limited to the US IRS), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, to enable the Trust or the relevant Sub-Fund to comply with

any applicable law or regulation or any agreement with a tax authority (including, but not limited to, any applicable law, regulation or agreement under FATCA).



## TAXES

*The following summary of Hong Kong and the PRC mainland taxation is of a general nature, for information purposes only, and is not intended to be an exhaustive list of all of the tax considerations that may be relevant to a decision to purchase, own, redeem or otherwise dispose of Units. This summary does not constitute legal or tax advice and does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, redeeming or disposing of Units both under the laws and practice of Hong Kong, the PRC mainland and the laws and practice of their respective jurisdictions. The information below is based on the law and practice in force in Hong Kong and the PRC mainland at the date of this Prospectus. The relevant laws, rules and practice relating to tax are subject to change and amendment (and such changes may be made on a retrospective basis). As such, there can be no guarantee that the summary provided below will continue to be applicable after the date of this Prospectus.*

### **Hong Kong**

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

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

Other Taxes: Notwithstanding that profits or income of the Sub-Fund are exempt from Hong Kong profits tax, the Sub-Fund may be subject to tax in certain jurisdictions where investments are made on income or capital gains derived.

Stamp Duty: Hong Kong stamp duty payable on the delivery of Hong Kong stocks by an investor to the Sub-Fund as consideration for an allotment of Units, or by the Sub-Fund to an investor upon redemption of such Units will be remitted, subject to application, under Section 52 of the Stamp Duty Ordinance. No Hong Kong stamp duty is payable by the Sub-Fund on an issue or redemption of Units.

#### ***The Unitholders***

##### Profits Tax

Where the Unitholders do not carry on a trade, profession or business in Hong Kong or the Units in the Sub-Fund are held by the Unitholders as capital assets for Hong Kong profits tax purposes, gains arising from the sale or disposal or redemption of the Units in the Sub-Fund should not be taxable. For Unitholders carrying on a trade, profession or business in Hong Kong, such gains may be subject to Hong Kong profits tax (which is currently charged at the rate of 16.5% in the case of corporations, and 15% in the case of individuals and unincorporated business) if the gains in question arise in or are derived from such trade, profession or business and sourced in Hong Kong and are of a revenue nature. Unitholders should take advice from their own professional advisers as to their particular tax position.

Distributions by the Trust/the Sub-Fund should generally not be subject to Hong Kong profits tax in the hands of the Unitholders according to the practice of the Inland Revenue Department of Hong Kong (as at the date of this Prospectus).

## Stamp Duty

Hong Kong stamp duty is payable on the transfer of Hong Kong stock. “Hong Kong stock” is defined as “stock” the transfer of which is required to be registered in Hong Kong. The Units fall within the definition of “Hong Kong stock” in the Stamp Duty Ordinance (Cap.17) of Hong Kong (the “Stamp Duty Ordinance”).

Under a remission order issued by the Secretary for the Treasury on 20 October 1999, no Hong Kong stamp duty is payable on an issue or redemption of Units.

Under the Stamp Duty (Amendment) Ordinance 2015 stamp duty payable in respect of any contract notes or instruments of transfer relating to transactions in the shares or units of an exchange traded fund (as defined in Part 1 to Schedule 8 of the Stamp Duty Ordinance) on the SEHK is not payable. Accordingly transfers of Units in any Sub-Fund (which is an exchange traded fund as defined in Part 1 to Schedule 8 of the Stamp Duty Ordinance) will not attract stamp duty and no stamp duty is payable by Unitholders.

### ***Hong Kong Requirements Regarding Tax Reporting***

The Inland Revenue (Amendment) (No.3) Ordinance (the “Ordinance”) 2016 came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (“AEOI”). The AEOI requires financial institutions (“FIs”) in Hong Kong to collect certain required information relating to non-Hong Kong tax residents holding financial accounts with the FIs and controlling persons of certain entities holding accounts with FIs, and report the relevant information to the Hong Kong Inland Revenue Department (“IRD”) for the purpose of AEOI exchange. The information of account holders who are tax resident in an AEOI reportable jurisdiction will automatically be exchanged with that jurisdiction. Subject to the passage of the Inland Revenue (Amendment) (No.3) Bill 2017, the number of reportable jurisdictions will be increased to include jurisdictions which Hong Kong has yet to enter into a Competent Authority Agreement (“CAA”). The Trust and/or its agents may adopt the wider approach in collecting residency information of account holders.

The Trust is a collective investment scheme within the definition set out in the SFO that is resident in Hong Kong, and is accordingly an investment entity with obligations to report as a financial institution in accordance with the Ordinance. This means that the Trust and/or its agents shall collect and provide to the IRD the required information relating to Unitholders and prospective investors.

The Ordinance as implemented by Hong Kong require the Trust and/or each Sub-Fund to, amongst other things: (i) register the Trust and/or each Sub-Fund as a “Reporting Financial Institution” with the IRD; (ii) conduct due diligence on its accounts (i.e. Unitholders) to identify whether any such accounts are considered “Reportable Accounts” under the Ordinance; and (iii) report to the IRD the required information on such Reportable Accounts. The IRD is expected on an annual basis to transmit the required information reported to it to the government authorities of the relevant jurisdictions. Broadly, AEOI contemplates that Hong Kong FIs should report on: (i) individuals or entities that are tax resident in a reportable jurisdiction; and (ii) certain entities controlled by individuals who are tax resident in such jurisdictions. Under the Ordinance, details of Unitholders, including but not limited to their name, place of birth, address, tax residence, taxpayer identification number (if any), account number, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant jurisdictions.

By investing in the Sub-Fund and/or continuing to invest in the Sub-Fund, Unitholders acknowledge that they are required to enable the Trust and/or the Sub-Fund to comply with AEOI by providing the required information to the Trust, the Sub-Fund, the Managers and/or the agents of the Trust and/or the Sub-Fund in order to open an account. Moreover, Unitholders acknowledge that they may be required to provide additional information to the Trust, the Manager and/or the Trust's agents in order for the Trust to comply with the Ordinance. The Unitholder's information (and information on controlling person including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are passive non-financial entities), may be transmitted by the IRD to authorities in other jurisdictions. The failure of a Unitholder to provide any requested information, may result in the Trust, the Manager and/or other agents of the Trust taking any action and/or pursue remedies at their disposal including, without limitation, mandatory redemption or withdrawal of the Unitholder concerned.

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

### **PRC mainland**

By investing in debt instruments issued by the PRC mainland resident companies and PRC mainland government, irrespective of whether such securities are issued or distributed onshore ("onshore PRC securities") or offshore ("offshore PRC securities", and together with onshore PRC securities, the "PRC mainland Securities"), the Sub-Fund may be subject to PRC mainland taxes.

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

If the Trust or the Sub-Fund is considered as a tax resident enterprise of the PRC mainland, it will be subject to PRC mainland CIT at 25% on its worldwide taxable income. If the Trust or the Sub-Fund is considered as a non-tax resident enterprise with an establishment or place of business ("E&P") in the PRC mainland, the profits and gains attributable to that E&P would be subject to CIT at 25%. Non-resident enterprises without any E&P in the PRC mainland are subject to PRC mainland Withholding Income Tax ("WIT") generally at a rate of 10% to the extent it directly derives the PRC mainland-sourced passive income, unless any specific exemption or reduction is available under current PRC mainland tax laws and regulations or relevant tax treaties.

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

#### *Interest income*

Unless a specific exemption or reduction is available under current PRC mainland tax laws and regulations or relevant tax treaties, non-tax resident enterprises without an E&P in the PRC mainland are subject to WIT, generally at a rate of 10%, on the payment of interests on debt instruments issued by PRC mainland tax residents. Under the PRC mainland CIT Law, interests derived from government bonds issued by the in-charge Finance Bureau of the State Council (which include the Treasury Bonds) are exempt from PRC mainland CIT. The Manager intends to make relevant provision on interest from PRC mainland Securities if the CIT is not withheld at source at the time when such income is received.

The Ministry of Finance (“MOF”) and the State Administration of Taxation (“SAT”) jointly issued Circular Caishui [2018] No. 108 (“Circular 108”) on 22 November 2018, which stipulates that QFIs are exempt from CIT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the PRC mainland bond market. As the CIT exemption granted under Circular 108 is temporary, it is uncertain whether such CIT exemption policy would be extended after 6 November 2021.

Under current regulations in the PRC mainland, foreign investors (such as the Trust and the Sub-Fund) may invest in onshore PRC securities, generally, only through a QFI. Since only the QFI’s interests in onshore PRC securities are recognised under PRC laws, any tax liability would, if it arises, be payable by the QFI. However under the terms of the arrangement between the QFI and the Trust, the QFI will pass on any tax liability to the Trust for the account of the Sub-Fund. As such, the Trust is the ultimate party which bears the risks relating to any PRC mainland taxes which are so levied by the relevant PRC mainland tax authority.

Under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (the “Arrangement”), if a Hong Kong tax resident derives interest income from the PRC mainland, the WIT rate can be reduced to 7% provided that the Hong Kong tax resident is the beneficial owner of the interest income under the Arrangement, subject to the approval of the PRC mainland tax authorities. However, there are still uncertainties as to how the PRC mainland tax authorities will assess the beneficial ownership issue for investment fund cases, it is uncertain whether the Sub-Fund can obtain approval from the tax authorities for this preferential rate. If the relevant approval is not obtained, the general rate of 10% will be applicable to the Sub-Fund.

#### *Dividend income*

Dividends derived from holding PRC mainland Securities by a non-tax resident recipient from PRC mainland tax residents are subject to the PRC mainland WIT and the general WIT rate applicable is 10%.

#### *Capital gains*

There are currently no specific tax rules or regulations governing the taxation of capital gains realised by foreign investors on the disposal of bonds or fixed income securities. As mentioned above, the temporary exemption granted under Circular 79 applies to equity investment only, and Circular 79 is silent on whether the exemption is also applicable to non-equity investment such as PRC mainland debt securities and other investments.

Based on the current verbal interpretation of the SAT and the local PRC mainland tax authorities, debt or fixed income securities can be regarded as movable properties, and capital gains derived by foreign investors from investment in PRC mainland debt or fixed income securities via QFIs should not be treated as PRC mainland-sourced income and thus not subject to PRC mainland WIT. However, there are no written tax regulations issued by the PRC mainland tax authorities to explicitly clarify such treatment.

A Sub-Fund that invests in PRC mainland Securities will do so through the Manager’s (which is a public Hong Kong tax resident) QFI status. Under the Arrangement, certain relief is applicable to Hong Kong tax residents. Having taken and considered independent professional advice relating to the applicability and the interpretation of the Arrangement and in accordance with such advice, the Manager considered that capital gains derived by a Hong Kong tax resident from transfer of debt instrument issued by the PRC mainland government and corporation should not

be taxable in the PRC mainland. The aforesaid capital gain tax exemption will only apply if approval is obtained from the PRC mainland tax authorities. Before a Hong Kong tax resident can enjoy relief under the Arrangement, a Hong Kong Tax Resident Certificate (“HKTRC”) issued by the Inland Revenue Department (“IRD”) should be submitted to the relevant PRC mainland tax authority for this purpose. As at the date of this Addendum, the Sub-Fund has not yet obtained the HKTRC from the IRD. If the PRC mainland tax authorities enforce the collection of WIT on capital gains and require the Sub-Fund to provide a HKTRC in order to obtain the WIT exemption, the Manager will apply for a HKTRC on behalf of the Sub-Fund.

As a matter of practice, the collection of such 10% PRC mainland WIT on capital gains realised by non-PRC mainland resident enterprises from the trading of PRC mainland debt or fixed income securities has not been strictly enforced by the PRC mainland tax authorities. It should be noted that there is a possibility of the PRC mainland tax rules being changed and taxes being applied retrospectively. There are also risks and uncertainties associated with the current PRC mainland tax laws, regulations and practice. There is a risk that taxes may be levied in future on the relevant Sub-Fund for which no provision is made, which may potentially cause substantial loss to the relevant Sub-Fund.

There is no provision made on the gross unrealised and realised capital gains derived from disposal of PRC mainland Securities. In the event that actual tax is collected by the SAT and the Sub-Fund is required to make payments reflecting tax liabilities for which no provision has been made, the Net Asset Value of the Sub-Fund may be adversely affected, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the Sub-Fund, a disproportionately higher amount of tax liabilities as compared to that borne at the time of investment in the Sub-Fund.

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

#### Value-Added Tax (“VAT”) and Other Surtaxes:

With the Circular Caishui [2016] No. 36 (“Circular 36”) regarding the final stage of VAT reform which came into effect on 1 May 2016, interests and gains derived from the trading of PRC mainland marketable debt securities will be subject to VAT starting from 1 May 2016.

#### *Interest income*

Pursuant to Circular 36, interest income received by foreign investors (including QFIIs and RFQIIs) from non-government bonds issued by PRC mainland tax resident enterprises should technically be subject to 6% VAT. Deposit interest income and interests received from government bonds and local government bonds shall be exempt from VAT.

Circular 108 stipulates that foreign institutional investors are temporarily exempt from VAT in respect of bond interest income received from 7 November 2018 to 6 November 2021 from investments in the PRC mainland bond market. As the VAT exemption granted under Circular 108 is temporary, it is uncertain whether such VAT exemption policy would be extended after 6 November 2021.

The Manager has made a provision for bond interest income (except for government bonds and

local government bonds) received by the Sub-Fund prior to 7 November 2018 in an amount equal to the total of (i) for VAT, 6% of such bond interest; plus (ii) for the potential other surtaxes on VAT, 12% of the VAT amount stated above. In other words, the provision is equal to 6.72% of the bond interest (except for government bonds and local government bonds) received by the Sub-Fund prior to 7 November 2018.

On the basis of Circular 108, the Manager will not make any provision in respect of VAT and other surtaxes on VAT for bond interest income received from 7 November 2018 to 6 November 2021 on behalf of the Sub-Fund.

#### *Dividend income*

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

#### *Capital gains*

According to Circular 36 and Circular Caishui [2016] No. 70, capital gains derived by QFIIs and RQFIIs on trading of marketable securities are exempt from VAT. Therefore, to the extent that the Sub-Fund's investments (such as debt instruments) are conducted through these channels, the capital gains should be exempt from VAT.

The MOF and SAT have not issued specific taxation rules on the Bond Connect. In the absence of specific taxation rule / guidance by the PRC mainland tax authorities on the tax treatment of gains from trading in PRC mainland inter-bank bond market by foreign institutional investors through the Bond Connect, applicable tax treatments under the existing PRC mainland domestic tax laws and regulations should apply. Nevertheless, in practice, the PRC mainland tax authorities have generally not actively enforced the collection of VAT on gains derived by non-PRC mainland tax resident enterprises from the disposal of Chinese bonds through the Bond Connect.

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

In light of the above-mentioned uncertainty, after careful consideration of the Manager's assessment and having taken and considered independent professional tax advice, the Sub-Fund does not currently make provision on the gross realised and unrealised capital gains derived from the disposal of Treasury Bonds and Policy Bank Bonds, but the Manager reserves the right to provide for WIT and VAT on gross realised and unrealised capital gains derived from investments in Treasury Bonds and Policy Bank Bonds, where applicable, in order to meet potential WIT and VAT tax liability on income derived from investments in Treasury Bonds and Policy Bank Bonds.

Upon any future resolution of the above-mentioned uncertainty or further changes to the tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision (if any) as they consider necessary. The amount of any such tax provision will be disclosed in the accounts of the Sub-Fund.

Any provision for WIT / VAT, where applicable, may reduce the income from, and/or adversely affect the performance of, the Sub-Fund. The amount of tax provided for the account of the Sub-Fund will not be released until the position with regard to PRC mainland taxation of the Sub-Fund in respect of its income from its investment in PRC mainland inter-bank bond market has been clarified. In the event that such position is clarified to the advantage of the Sub-Fund, the Manager may release the tax provision. The amount so released shall be retained by the Sub-Fund and



reflected in the value of its Units. Notwithstanding the foregoing, no Unitholder who redeemed his/her Units before the release of any provision shall be entitled to claim any part of such release.

Stamp Duty:

Stamp duty under the PRC mainland laws generally applies to the execution and receipt of all taxable documents listed in the PRC mainland's Provisional Rules on Stamp Duty.

Stamp duty is not expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or subsequent transfer of such bonds.

General:

It should also be noted that the actual applicable tax rates imposed by the SAT may be different and may change from time to time. There is a possibility of the rules being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC mainland tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. Moreover, there is no assurance that tax incentives currently offered to foreign companies, if any, will not be abolished and the existing tax laws and regulations will not be revised or amended in the future. Any changes in tax policies may reduce the after-tax profits of the companies in the PRC mainland which the relevant Sub-Fund invests in, thereby reducing the income from, and/or value of the Units.

Tax Provision:

In order to meet the potential tax liability on capital gains arising from disposal of PRC mainland Securities, the Manager reserves the right to provide for WIT on such gains and withhold the tax for the account of the relevant Sub-Fund. The Manager will at the inception of the relevant Sub-Fund decide whether the investment objectives and policies of the relevant Sub-Fund would necessitate the making of tax provisions in respect of the relevant Sub-Fund for the above tax obligations. Even if provisions are made, the amount of such provisions may not be sufficient to meet the actual tax liabilities. Where any provision is made, the amount of actual provision will be disclosed in the accounts of the relevant Sub-Fund. With the uncertainties under the applicable PRC mainland tax laws and the possibility of such laws being changed and taxes being applied retrospectively, any provision for taxation made by the Manager may be excessive or inadequate to meet actual PRC mainland tax liabilities on gains derived from investments held by the relevant Sub-Fund. Upon any future resolution of the abovementioned uncertainty or further changes to tax law or policies, the Manager will, as soon as practicable, make relevant adjustments to the amount of tax provision as it considers necessary. Investors should note that if provision for taxation is made, such provision may be excessive or inadequate to meet actual PRC mainland tax liabilities on investments made by the relevant Sub-Fund. As a result, investors may be advantaged or disadvantaged depending on the final rules of the relevant PRC mainland tax authorities. If no provision for potential WIT is made and in the event that the PRC mainland tax authorities enforce the imposition of such WIT in respect of the relevant Sub-Fund's investment, the Net Asset Value of the relevant Sub-Fund may be affected. As a result, redemption proceeds or distributions may be paid to the relevant Unitholders without taking full account of tax that may be suffered by the relevant Sub-Fund, which tax will subsequently be borne by the relevant Sub-Fund and affect the Net Asset Value of the relevant Sub-Fund and the remaining Units in the relevant Sub-Fund. In this case, the then existing and new Unitholders will be disadvantaged from the shortfall.

If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so



that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may suffer more than the tax provision amount as the Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof.

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

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

## SCHEDULE 1

### INVESTMENT RESTRICTIONS, SECURITIES LENDING AND BORROWING

#### General

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

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

#### Investment Restrictions

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

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity through the following may not exceed 10% of the Net Asset Value of the Sub-Fund, save as (for an index tracking ETF) permitted by Chapter 8.6(h) and as varied by Chapter 8.6(h)(a) of the Code:
  - (1) investments in Securities issued by such entity;
  - (2) exposure to such entity through underlying assets of financial derivative instrument ("FDI"); and
  - (3) net counterparty exposure to such entity arising from transactions of over-the-counter FDIs;
- (b) subject to (a) above and Chapter 7.28(c) of the Code and unless otherwise approved by the SFC, the aggregate value of the Sub-Fund's investments in, or exposure to, entities within the same group through the following may not exceed 20% of the Net Asset Value of the Sub-Fund:
  - (1) investments in Securities issued by such entities;
  - (2) exposure to such entities through underlying assets of FDIs; and
  - (3) net counterparty exposure to such entities arising from transactions of over-the-counter FDIs;
- (c) unless otherwise approved by the SFC, the value of the Sub-Fund's cash deposits made with the same entity or entities within the same group may not exceed 20% of the Net Asset Value of the Sub-Fund, unless:
  - (1) the cash is held before the launch of the Sub-Fund and for a reasonable period thereafter prior to the initial subscription proceeds being fully invested; or
  - (2) the cash is proceeds from liquidation of investments prior to the merger or termination of the Sub-Fund, whereby the placing of cash deposits with various financial institutions may not be in the best interest of investors; or

- (3) the cash is proceeds received from subscriptions pending investments and held for the settlement of redemption and other payment obligations, whereby the placing of cash deposits with various financial institutions is unduly burdensome and the cash deposits arrangement would not compromise investors' interests;

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

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

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

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

(1) the value of the Sub-Fund’s investment in units or shares in underlying schemes which are non-eligible schemes (as determined by the SFC) and not authorised by the SFC may not in aggregate exceed 10% of the total Net Asset Value of the Sub-Fund; and

(2) the Sub-Fund may invest in one or more underlying schemes which are either schemes authorised by the SFC or eligible schemes (as determined by the SFC), but the value of the Sub-Fund’s investment in units or shares in each such underlying scheme may not exceed 30% of the total Net Asset Value of the Sub-Fund, unless the underlying scheme is authorised by the SFC and its name and key investment information are disclosed in the Prospectus of the Sub-Fund,

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

(i) the objective of each underlying scheme may not be to invest primarily in any investment prohibited by Chapter 7 of the Code, and where that underlying scheme’s objective is to invest primarily in investments restricted by Chapter 7 of the Code, such investments may not be in contravention of the relevant limitation prescribed by Chapter 7 of the Code. For the avoidance of doubt, the Sub-Fund may invest in scheme(s) authorised by the SFC under Chapter 8 of the Code (except for hedge funds under Chapter 8.7 of the Code), eligible scheme(s) (as determined by the SFC) of which the net derivative exposure (as defined in the Code) does not exceed 100% of its total Net Asset Value, and exchange traded funds satisfying the requirements in paragraph (j) above in compliance with paragraph (k)(1) and (k)(2);

(ii) where the underlying schemes are managed by the Manager, or by other companies within the same group that the Manager belongs to, then paragraphs (a), (b), (d) and (e) above are also applicable to the investments of the underlying scheme;

(iii) the objective of the underlying schemes may not be to invest primarily in other collective investment scheme(s);

(3) where an investment is made in any underlying scheme(s) managed by the Manager or any of its Connected Persons, all initial charges and redemption charges on the underlying scheme(s) must be waived; and

(4) the Manager or any person acting on behalf of the Sub-Fund or the Manager may not obtain a rebate on any fees or charges levied by an underlying scheme or the manager of an underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;

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

(1) the underlying scheme (“master fund”) must be authorised by the SFC;

(2) the Prospectus must state that:

(i) the Sub-Fund is a feeder fund into the master fund;

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

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

- (A) invest in a Security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued Securities of that class or the directors and officers of the Manager collectively own more than 5% of those Securities;
- (B) invest in any type of real estate (including buildings) or interests in real estate (including options or rights, but excluding shares in real estate companies and interests in real estate investment trusts (REITs)). In the case of investments in such shares and REITs, they shall comply with the relevant investment restrictions and limitations set out in Chapters 7.1, 7.1A, 7.2, 7.3 and 7.11 of the Code, where applicable;
- (C) make short sales if as a result the Sub-Fund would be required to deliver Securities exceeding 10% of the total Net Asset Value of the Sub-Fund (and for this purpose Securities sold short must be actively traded on a market where short selling is permitted). For the avoidance of doubt, the Sub-Fund is prohibited to carry out any naked or uncovered short sale of securities and short selling should be carried out in accordance with all applicable laws and regulations;
- (D) lend or make a loan out of the assets of the Sub-Fund, except to the extent that the acquisition of bonds or the making of a deposit (within the applicable investment restrictions) might constitute a loan;
- (E) subject to (e), assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (F) enter into any obligation in respect of the Sub-Fund or acquire any asset or engage in any transaction for the account of the Sub-Fund which involves the assumption of any liability which is unlimited; or
- (G) apply any part of the Sub-Fund in the acquisition of any investments which are for the time being nil paid or partly paid in respect of which a call is due to be made for any sum unpaid on such investments unless such call could be met in full out of cash or near cash forming part of the

Sub-Fund whereby such amount of cash or near cash has not been segregated to cover a future or contingent commitment arising from transactions in FDIs for the purposes of Chapters 7.29 and 7.30 of the Code.

For the avoidance of doubt, the liability of Unitholders is limited to their investment in the relevant Sub-Fund.

*Notes: The investment restrictions set out above apply to the Sub-Fund, subject to the following:—*

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

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

- (1) the Sub-Fund adopts a representative sampling strategy which does not involve full replication of the constituent Securities of the underlying index in the exact weightings of such index;*
- (2) the strategy is clearly disclosed in the Prospectus;*
- (3) the excess of the weightings of the constituent Securities held by the Sub-Fund over the weightings in the index is caused by the implementation of the representative sampling strategy;*
- (4) any excess weightings of the Sub-Fund's holdings over the weightings in the index must be subject to a maximum limit reasonably determined by the Sub-Fund after consultation with the SFC. In determining this limit, the Sub-Fund must consider the characteristics of the underlying constituent Securities, their weightings and the investment objectives of the index and any other suitable factors;*
- (5) limits laid down by the Sub-Fund pursuant to the point above must be disclosed in the Prospectus;*
- (6) disclosure must be made in the Sub-Fund's interim and annual reports as to whether the limits imposed by the Sub-Fund itself pursuant to the above point (4) have been complied with in full. If there is non-compliance with the said limits during the relevant reporting period, this must be reported to the SFC on a timely basis and an account for such non-compliance should be stated in the report relating to the period in which the non-compliance occurs or otherwise notified to investors.*

### **Financial Derivative Instruments**

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

Where the Sub-Fund acquires FDIs for hedging purpose, such FDIs shall meet all of the following criteria:

- (a) they are not aimed at generating any investment return;
- (b) they are solely intended for the purpose of limiting, offsetting or eliminating the probability of loss of risks arising from the investments being hedged;

- (c) they should relate to the same asset class with high correlation in terms of risks and return, and involve taking opposite positions, in respect of the investments being hedged; and
- (d) they should exhibit price movements with high negative correlation with the investments being hedged under normal market conditions.

Where the Sub-Fund acquires FDIs for non-hedging purposes (“investment purposes”), the limit that the Sub-Fund’s net exposure relating to these FDIs (“net derivative exposure”) shall not exceed 50% of its total Net Asset Value (unless otherwise approved by the SFC for the Sub-Fund pursuant to Chapters 8.8 or 8.9 of the Code). For the avoidance of doubt:

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

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

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

- (a) the underlying assets consist solely of shares in companies, debt Securities, money market instruments, units/shares of collective investment schemes, deposits with substantial financial institutions, Government and other Public Securities, highly-liquid physical commodities (including gold, silver, platinum and crude oil), financial indices, interest rates, foreign exchange rates or currencies or other asset classes acceptable to the SFC, in which the Sub-Fund may invest according to its investment objectives and policies. Where the Sub-Fund invests in index-based FDIs, the underlying assets of such FDIs are not required to be aggregated for the purposes of the investment restrictions or limitations set out in Chapters 7.1, 7.1A, 7.1B and 7.4 of the Code provided that the relevant index is in compliance with Chapter 8.6(e) of the Code;
- (b) the counterparties to over-the-counter FDI transactions or their guarantors are substantial financial institutions or such other entity acceptable to the SFC on a case-by-case basis;
- (c) subject to paragraphs (a) and (b) under the section entitled “Investment Restrictions” above, the net counterparty exposure to a single entity arising from transactions of the over-the-counter FDIs may not exceed 10% of the Net Asset Value of the Sub-Fund. The exposure of the Sub-Fund to a counterparty of over-the-counter FDIs may be lowered by the collateral received (if applicable) by the Sub-Fund and shall be calculated with reference to the value of collateral and positive mark to market value of the over-the-counter FDIs with that counterparty, if applicable; and
- (d) the valuation of the FDIs is marked-to-market daily, subject to regular, reliable and verifiable valuation conducted by the Manager or the Trustee or their nominee(s), agent(s) or delegate(s) independent of the issuer of the FDIs through measures such as the establishment of a valuation committee or engagement of third party services. The FDIs can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the initiative of the Sub-Fund. Further, the calculation agent/ fund administrator should be adequately equipped with the necessary resources to conduct independent marked-to-market valuation and to verify the valuation of the



FDIs on a regular basis.

Where the Sub-Fund invests in any FDI, it shall at all times be capable of meeting all its payment and delivery obligations incurred under transactions in FDI (whether for hedging or for investment purposes). The Manager shall, as part of its risk management process, monitor to ensure that the transactions in FDI are adequately covered on an ongoing basis.

For the purposes herein, assets that are used to cover the Sub-Fund's payment and delivery obligations incurred under transactions in FDI should be free from any liens and encumbrances, exclude any cash or near cash for the purpose of meeting a call on any sum unpaid on a Security, and cannot be applied for any other purposes.

A transaction in FDI which gives rise to a future commitment or contingent commitment of the Sub-Fund should also be covered as follows:

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

The above policies relating to FDI apply to financial instruments which embed financial derivatives as well. For the purposes herein, an "embedded financial derivative" is a financial derivative instrument that is embedded in another Security.

### **Collateral**

Collateral received from counterparties shall comply with the following requirements:

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

- Correlation – the value of the collateral should not have any significant correlation with the creditworthiness of the counterparty or the issuer of the FDIs in such a way that would undermine the effectiveness of the collateral. As such, securities issued by the counterparty or the issuer of the FDIs or any of their related entities should not be used as collateral;
- Management of operational and legal risks – the Manager shall have appropriate systems, operational capabilities and legal expertise for proper collateral management;
- Independent custody – collateral must be held by the Trustee;
- Enforceability – collateral must be readily accessible/enforceable by the Trustee without further recourse to the issuer of the FDIs, or the counterparty of the securities financing transactions;
- Cash collateral - cash collateral received may only be reinvested in short-term deposits, high quality money market instruments and money market funds authorised under Chapter 8.2 of the Code or regulated in a manner generally comparable with the requirements of the SFC and acceptable to the SFC, and subject to corresponding investment restrictions or limitations applicable to such investments or exposure as set out in Chapter 7 of the Code. Non-cash collateral received may not be sold, re-invested or pledged;

For the purpose herein, “money market instruments” refer to securities normally dealt in on the money markets, including government bills, certificates of deposit, commercial papers, short-term notes and bankers’ acceptances, etc. In assessing whether a money market instrument is of high quality, at a minimum, the credit quality and the liquidity profile of the money market instruments must be taken into account. Any re-investment of cash collateral shall be subject to the following further restrictions and limitations:

- (i) the portfolio of assets from re-investment of cash collateral shall comply with the requirements as set out in Chapter 8.2(f) and Chapter 8.2(n) of the Code;
  - (ii) cash collateral received is not allowed to be further engaged in any securities financing transactions; and
  - (iii) when the cash collateral received is reinvested into other investment(s), such investment(s) is/are not allowed to be engaged in any securities financing transactions.
- Encumbrances - collateral should be free of prior encumbrances; and
  - Collateral generally should not include (i) structured products whose payouts rely on embedded FDIs or synthetic instruments; (ii) securities issued by special purpose vehicles, special investment vehicles or similar entities; (iii) securitised products; or (iv) unlisted collective investment schemes.

For the avoidance of doubt, there is no current intention for the Sub-Fund to receive any collateral in view of the current strategy of the Sub-Fund, but where the Sub-Fund does receive collateral, prior approval shall be obtained from the SFC and the relevant collateral policy and criteria will be disclosed in the Prospectus in accordance with the Code. Please refer to the section “Description of the Sub-Fund” – “Investment Strategy” in relation to the current strategy of the Sub-Fund in relation to the use of FDIs.

### **Securities Financing Transactions**

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

If the Sub-Fund engages in securities financing transactions, it is subject to the following requirements:

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

For the avoidance of doubt, there is no current intention for the Sub-Fund to engage in securities lending, sale and repurchase transactions and reverse repurchase transactions, but where the Sub-Fund does engage such transactions, prior approval shall be obtained from the SFC and the details of policy regarding securities financing transactions will be disclosed in the Prospectus in accordance with the Code.

Please refer to the section “Description of the Sub-Fund” – “Investment Strategy” in relation to the current strategy of the Sub-Fund in relation to securities financing transactions.

### **Borrowing Policy**

Borrowing against the assets of the Sub-Fund is allowed up to a maximum of 10% of its total Net Asset Value. The Trustee may at the request of the Manager borrow for the account of the Sub-Fund any currency, and charge or pledge assets of the Sub-Fund, for the following purposes:

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

Securities lending transactions and sale and repurchase transactions in compliance with the requirements as set under the section entitled “Securities Financing Transactions” above are also not borrowings for the purpose of, and are not subject to the borrowing restrictions under this section.

## SCHEDULE 2

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