

# PRODUCT KEY FACTS

## Value China A-Share ETF

*A sub-fund established under the Value Partners ETFs*

Issuer: Value Partners Hong Kong Limited

January 2020

***This is a passive exchange traded fund.***

***This statement provides you with key information about this product.***

***This statement is a part of the Prospectus.***

***You should not invest in this product based on this statement alone.***

### Quick facts

Stock code:	83095 – RMB counter 03095 – HKD counter
Trading lot size:	500 Units – RMB counter 500 Units – HKD counter
Manager and RQFII Holder:	Value Partners Hong Kong Limited 惠理基金管理香港有限公司
Investment Adviser:	Sensible Asset Management Hong Kong Limited 盛寶資產管理香港有限公司
Trustee and Registrar:	HSBC Institutional Trust Services (Asia) Limited
Custodian:	The Hongkong and Shanghai Banking Corporation Limited
PRC Custodian:	HSBC Bank (China) Company Limited
Ongoing charges over a year <sup>#</sup> :	1.15% <sup>y</sup>
Tracking difference of the last calendar year <sup>##</sup> :	-1.32%
Underlying Index:	FTSE Value-Stocks China A-Share Index
Trading currency:	Renminbi (RMB) – RMB counter Hong Kong dollars (HKD) – HKD counter
Base currency:	Renminbi (RMB)
Distribution policy:	The Sub-Fund aims to make distributions semi-annually in March and September (if any) subject to the Manager's discretion. The Manager may, at its discretion, pay distributions out of capital of the Sub-Fund. Where distributions are distributed out of capital or effectively out of capital, this may result in an immediate reduction of NAV per Unit. <b>All Units (whether RMB or HKD traded Units) will receive distributions in RMB only.</b>

**Financial year end of this fund:**

31 March

**ETF Website:**

<https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC)

- # The ongoing charges figure is expressed as a percentage of the sum of expenses over the average NAV of the Sub-Fund for the corresponding period as described below. This figure may vary from year to year. Information is updated as at 9 December 2019.
- ∨ This figure is an annualised figure based on the expenses for the interim period ended 30 September 2019. The actual ongoing charges figure may be different and may vary from year to year.
- ## This is the actual tracking difference of the calendar year ending on 31 December 2018. Investors should refer to the Sub-Fund's website for more up-to-date information on actual tracking difference.

## What is this product?

Value China A-Share ETF (the “**Sub-Fund**”) is a sub-fund of Value Partners ETFs Trust, an umbrella unit trust established under Hong Kong law. The Sub-Fund is a passively-managed ETF listed on The Stock Exchange of Hong Kong Limited (the “**SEHK**”). The units of the Sub-Fund (the “**Units**”) are traded like stocks.

The Sub-Fund is a physical ETF which invests directly in the PRC's domestic securities markets through the Manager's status as a renminbi qualified foreign institutional investor (“**RQFII**”) and the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (“**Stock Connect**”).

## Objectives and Investment Strategy

### Objective

The investment objective of the Sub-Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the FTSE Value-Stocks China A-Share Index (the “**Index**”).

### Strategy

In seeking to achieve the Sub-Fund's investment objective, the Manager uses a full replication strategy through investing directly in A-Shares included in the Index in substantially the same weightings in which they are included in the Index, through the RQFII regime and Stock Connect. The Manager may invest up to 100% of the Sub-Fund's NAV through either RQFII and/or Stock Connect. The Manager will not adopt representative sampling as an investment strategy.

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 adopt investment strategy other than full replication strategy.

The Sub-Fund has no present intention to use financial derivative instruments for hedging or non-hedging purposes. Non-hedging purposes include cost reduction and investment purpose. Any change in this regard is subject to the prior approval of the SFC and not less than one month's prior notice to the Unitholders.

The Sub-Fund may invest up to 5% of NAV in money market instruments, cash and/or cash equivalent for cash management purposes.

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

The Sub-Fund will not engage in any securities lending, repurchase transactions or other similar over-the-counter transactions. Any change in this regard is subject to the prior approval of the SFC and not less than one month's prior notice to the Unitholders.

### Index

The Index is a total return, free float-adjusted market capitalisation-weighted index and is denominated in RMB. The Index was launched on 22 February 2011 and has a base date of 31 May 2005 and a base value of 1,000. As at 29 November 2019, it had a total market capitalisation of RMB 10,227.715 billion and 50 constituents. The Index is calculated and disseminated in RMB on a real time basis.

The Index usually consists of 50 quality value stocks amongst liquid and tradeable A-Share companies listed on the Shanghai Stock Exchange ("SSE") and the Shenzhen Stock Exchange ("SZSE"). Constituents of the Index must pass a value screening process which includes valuation, quality and contrarian factors. Companies passing through the screening process are ranked by PE ratio and the 50 companies with the lowest PE ratios are selected. Constituent stocks are capped at 10% at the semi-annual Index review to avoid overconcentration in any one stock.

FTSE (the "Index Provider") is responsible for the operation, calculation and the maintenance of the Index as well as the publication and record keeping, while Value Partners Index Services Limited ("VPISL") is responsible for undertaking the index screening review of the Index.

Please refer to the Index Provider's website at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC) for the most updated list of the constituents of the Index, the respective weighting of the constituents and other additional information of the Index. The Index is also available on Bloomberg (GPVP9TR) and Thomson Reuters (.FTGPVP009) in real time.

### Use of derivatives

The fund will not use derivatives for any purposes.

### What are the key risks?

**Investment involves risks. Please refer to the Prospectus for details including the risk factors.**

#### 1. Investment risks

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

#### 2. Concentration risks

- The Sub-Fund is subject to concentration risk as a result of tracking the performance of a single geographical region (the PRC) and may likely be more volatile than a broad-based fund.

#### 3. RQFII regime risks

- In the event of any default of either a PRC broker or the PRC Custodian (directly or through its delegate) in the execution or settlement of any transaction or in the transfer of any funds or securities in the PRC, the Sub-Fund may encounter delays in recovering its assets which may in turn adversely impact the NAV.

- The Sub-Fund's ability to make the relevant investments or to fully implement or pursue its investment objective and strategy is subject to the applicable laws, rules and regulations (including restrictions on investments and repatriation of principal and profits) in the PRC, which are subject to change and such change may have potential retrospective effect.
- There can be no assurance that the RQFII status of the Manager will not be suspended or revoked. In such event, the Manager may suspend creations of Units and the trading price of a Unit will be at a significant premium to the NAV of each Unit (which may also increase tracking error of the Sub-Fund).

#### **4. RMB trading and settlement of Units risks**

- Not all stockbrokers or custodians may be ready and able to carry out trading and settlement of the RMB traded Units.
- The limited availability of RMB outside the PRC may also affect the liquidity and trading price of the RMB traded Units.

#### **5. Dual counter risks**

- If there is a suspension of the inter-counter transfer of Units between the counters and/or any limitation on the level of services by brokers and CCASS participants, Unitholders will only be able to trade their units in one counter only, which may inhibit or delay an investor dealing. The market price of Units traded in each counter may deviate significantly. As such, investors may pay more or receive less when buying or selling units traded in HKD on the SEHK than in respect of Units traded in RMB or other currencies and vice versa.
- Investors without RMB accounts may buy and sell HKD traded Units only. Such investors will not be able to buy or sell RMB traded Units and should note that distributions are made in RMB only. As such, investors may suffer a foreign exchange loss and incur foreign exchange associated fees and charges to receive their dividend.
- Not all brokers and CCASS participants may be familiar with and able to buy Units in one counter and to sell Units in the other or to carry out inter-counter transfers of Units or to trade both counters at the same time. This may inhibit or delay an investor dealing in both HKD traded Units and RMB traded Units and may mean an investor can only trade in one currency.

#### **6. PRC related risks**

- Given that the A-Share market is considered volatile and unstable (with the risk of suspension of a particular stock or government intervention), the creation and redemption of Units may also be disrupted. A Participating Dealer is unlikely to redeem or create Units if it considers that A-Shares may not be available.
- Investing in PRC-related companies and in the PRC markets involve certain risks and special considerations not typically associated with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity, legal and regulatory risk.
- The PRC imposes limitations or restrictions on foreign ownership or holdings of A-Shares which may have adverse effects on the liquidity and performance of the Sub-Fund. This may cause tracking error and, at worst, the Sub-Fund may not be able to achieve its investment objective.

**7. PRC tax risk**

- There are risks and uncertainties associated with the current PRC tax laws, regulations and practice in respect of capital gains realised via RQFII quota or Stock Connect on investments in the PRC (which may have retrospective effect).
- The tax exemption granted to QFII and RQFII by the relevant PRC authorities is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the NAV of the Sub-Fund.
- If actual tax is collected by the State Administration of Taxation of the PRC and the Sub-Fund is required to make payments reflecting tax liabilities for which no provision has been made, the NAV 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.

**8. RMB currency risks**

- The Sub-Fund is denominated in RMB. RMB is currently not freely convertible and is subject to exchange controls and restrictions.
- Non-RMB based investors are exposed to foreign exchange risk and there is no guarantee that the value of RMB against the investors' base currencies will not depreciate. Any depreciation of RMB could adversely affect the value of investor's investment in the Sub-Fund.
- Although offshore RMB (CNH) and onshore RMB (CNY) are the same currency, they trade at different rates. Any divergence between CNH and CNY may adversely impact investors.
- Under exceptional circumstances, payment of redemptions and/or dividend payment in RMB may be delayed due to the exchange controls and restrictions applicable to RMB.

**9. Stock Connect risks**

- The relevant rules and regulations on Stock Connect are subject to change which may have potential retrospective effect. The Stock Connect is subject to quota limitations. Where a suspension in the trading through the programme is effected, the Sub-Fund's ability to invest in China A-shares or access the PRC market through the programme will be adversely affected. In such event, the Sub-Fund's ability to achieve its investment objective could be negatively affected.

**10. Trading differences risks**

- As the SSE and the SZSE may be open when Units in the Sub-Fund are not priced, the value of the securities in the Sub-Fund's portfolio may change on days when investors will not be able to purchase or sell the Sub-Fund's Units.
- Differences in trading hours between stock exchanges in the PRC (i.e. the SSE and SZSE) and the SEHK may increase the level of premium/discount of the Unit price to its NAV because if a PRC stock exchange is closed while the SEHK is open, the Index level may not be available.
- China A-Shares are subject to trading bands which restrict increases and decreases in the trading price. Units listed on the SEHK are not. This difference may also increase the level

of premium or discount of the Unit price to its NAV.

#### **11. Reliance on the Value Partners group and conflicts of interests risks**

- The Index was designed by VPISL and VPISL is responsible for undertaking the index screening review of the Index. VPISL, the Manager and the Investment Adviser are connected persons because the ultimate holding company of VPISL is the holding company of the Manager and the Investment Adviser. The Manager and VPISL also share resources. The functions which VPISL, the Manager and the Investment Adviser will perform in connection with the Sub-Fund may give rise to potential conflicts of interest.
- Nonetheless, the Manager does not consider that this will be a concern for the following reasons: (a) the operations of VPISL and of the Manager and the Investment Adviser are handled by different personnel; (b) the Value Partners Group has internal policies and procedures which ensure that effective "Chinese Walls" are created and maintained; (c) the Value Partners Group has IT firewall procedures restricting access to information to authorised personnel; and (d) the Index is calculated strictly in accordance with clear methodology and rules. As such, VPISL is operationally independent of the Manager and the Investment Adviser. In addition, all transactions (including those with VPISL) carried out by or on behalf of the Sub-Fund by the Manager and the Investment Adviser will be on arm's length terms. If and to the extent any conflict of interest with VPISL arises, the Manager and the Investment Adviser will, at all times, have regard in such event to its obligations to the Sub-Fund and Unitholders and will endeavour to ensure such conflicts are resolved fairly and in accordance with applicable law and regulation.

#### **12. Distributions related risks**

- There is no assurance that the Sub-Fund will declare to pay distributions. Investors may not receive any distributions.
- Distributions may be distributable out of capital or out of gross income while all or part of fees and expenses of the Sub-Fund are charged to capital, resulting in an increase in distributable income for the payment of distributions by the Sub-Fund and therefore, the Sub-Fund may effectively pay distributions out of capital.
- Payment of distributions 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 out of capital or effectively out of capital may result in an immediate reduction of the NAV per Unit.
- The Manager may amend the distribution policy of the Sub-Fund subject to the SFC's prior approval and by giving not less than one month prior notice to the Unitholders.

#### **13. Termination risk**

- The Sub-Fund may be terminated early under certain circumstances, for example, where the Index is no longer available for benchmarking or if the size of the Sub-Fund falls below RMB150 million. Investors may not be able to recover their investments and suffer a loss when the fund is terminated. Please refer to the section "Termination" in the Prospectus for further details.

#### **14. Passive investment risks**

- The Sub-Fund is passively managed and the Manager will not have the discretion to adapt to market changes due to the inherent investment nature of the Sub-Fund. Falls in the

Index are expected to result in corresponding falls in the value of the Sub-Fund.

#### **15. Manager reliance risks**

- Although the Manager group has significant experience of managing ETFs, including one ETF with a dual counter and units trading in RMB and HKD, and the Manager has key personnel with experience in managing unlisted retail funds investing in A-Shares, the Manager has no experience of managing ETFs which invest directly in the A-Share market.

#### **16. Trading risk**

- Generally, retail investors can only buy or sell Units on the SEHK. The trading price of the Units on the SEHK is driven by market factors such as the demand and supply of the Units. Therefore, the Units may trade at a substantial premium or discount to the Sub-Fund's NAV.
- As investors will pay certain charges (e.g. trading fees and brokerage fees) to buy or sell Units on the SEHK, investors may pay more than the NAV per Unit when buying Units on the SEHK, and may receive less than the NAV per Unit when selling Units on the SEHK.
- The Units in the RMB counter are RMB denominated securities traded on the SEHK and settled in CCASS. Not all stockbrokers or custodians may be ready and able to carry out trading and settlement of the RMB traded Units. The limited availability of RMB outside the PRC may also affect the liquidity and trading price of the RMB traded units.
- It is possible that the Sub-Fund will rely on only one broker for each of the SSE and the SZSE (which may be the same broker). Should for any reason, the Manager be unable to use the relevant broker in the PRC, the operations of the Sub-Fund would be adversely affected and may cause Units to trade at a premium or discount to the Sub-Fund's NAV or cause the Sub-Fund to be unable to track the Index.

#### **17. Reliance on market maker risks**

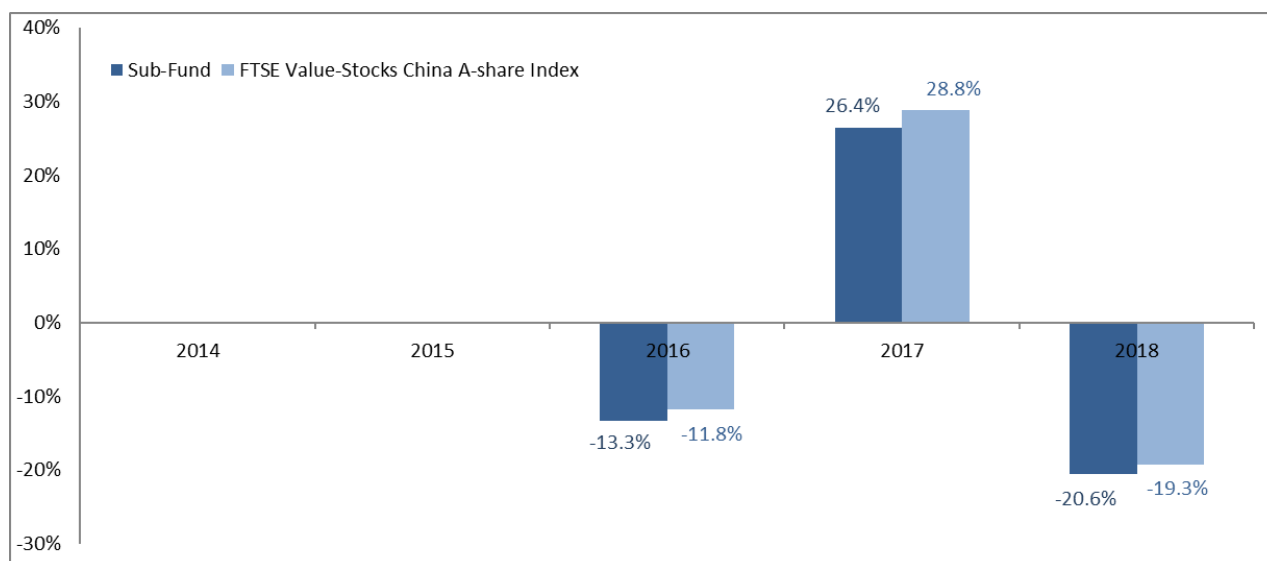
- Although the Manager will use its best endeavours to put in place arrangements so that at least one market maker will maintain a market for the units traded in each counter (which can be the same market maker) and that at least one market maker to each counter is required to give not less than 3 months' notice prior to terminating market making under the relevant market maker agreement, liquidity in the market for the units may be adversely affected if there is no or only one market maker for the RMB and HKD traded Units. There is also no guarantee that any market making activity will be effective.
- There may be less interest by potential market makers making a market in Units denominated and traded in RMB. Any disruption to the availability of RMB may adversely affect the capability of market makers in providing liquidity for the Units.

#### **18. Tracking error risk**

- The Sub-Fund may be subject to tracking error risk, which is the risk that its performance may not track that of the index exactly. This tracking error may result from the investment strategy used, and fees and expenses. The Manager will monitor and seek to manage such risk in minimising tracking error. There can be no assurance of exact or identical replication at any time of the performance of the Index.



## How has the Sub-Fund performed?



- Past performance information is not indicative of future performance. Investors may not get back the full amount invested.
- The computation basis of the performance is based on the calendar year end, NAV-to-NAV, with dividends (if any) reinvested.
- These figures show by how much the Sub-Fund increased or decreased in value during the calendar year being shown. Performance data has been calculated in HKD including ongoing charges and excluding your trading costs on the SEHK.
- Where no past performance is shown there was insufficient data available in that year to provide performance.
- Sub-Fund launch date: 24 March 2015

## Is there any guarantee?

The Sub-Fund does not have any guarantees. You may not get back the amount of money you invest.

## What are the fees and charges?

### Charges incurred when trading the Sub-Fund on the SEHK

Fees	What you pay
Brokerage fee	Market rates
Transaction levy	0.0027% <sup>1</sup>
SEHK trading fee	0.005% <sup>2</sup>
Stamp duty	Nil
Inter-counter transfer	HKD5 <sup>3</sup>

<sup>1</sup> Transaction levy, presently 0.0027% of the trading price of the Units, is payable by each of the buyer and the seller.

<sup>2</sup> Trading fee of 0.005% of the trading price of the Units, payable by each of the buyer and the seller.

<sup>3</sup> HKSCC will charge each CCASS participant a fee of HKD5 per instruction for effecting an inter-counter transfer between one counter and the other counter. Investors should check with their brokers regarding any additional fees.



## Ongoing fees payable by the Sub-Fund

The following expenses will be paid out of the Sub-Fund. They affect you because they reduce the NAV of the Sub-Fund which may affect the trading price.

	Annual rate (as a % NAV)
<b>Management fee*</b>	0.10%
The Sub-Fund pays a management fee to the Manager.	
<b>Trustee's and Registrar's fee*</b>	0.10% (subject to a minimum of RMB30,000 per month)
The Sub-Fund pays a trustee's and registrar's fee to the Trustee. The Trustee pays the fees (if any) of the Custodian and PRC Custodian. Such fees shall not be borne by the Sub-Fund.	
<i>* Please note that these fees may be increased up to a permitted maximum on giving 1 month's notice to the Unitholders. Please refer to the section of the prospectus entitled "Fees and Expenses" for further details of the fees and charges payable and the permitted maximum of such fees allowed as well as other ongoing expenses that may be borne by the Sub-Fund.</i>	
<b>Performance fee</b>	Nil
<b>Administration fee</b>	Nil

## Other fees

You may have to pay other fees when dealing in the Units.

## Additional information

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 <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC) including:

- (a) the Prospectus and this statement (as revised from time to time);
- (b) the latest annual and interim financial reports;
- (c) any notices for material alterations or additions to the 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 the Index, the notices of the suspension of the calculation of the NAV, changes in fees and the suspension and resumption of trading;
- (e) the near real time indicative NAV per Unit throughout each Dealing Day in RMB and in HKD updated every 15 seconds throughout each Dealing Day;
- (f) the latest list of the participating dealers and market makers;
- (g) the last NAV of the Sub-Fund in RMB only and the last NAV per Unit in RMB and in HKD;
- (h) the constituents of the Index and the level of the Index
- (i) the full holdings of the Sub-Fund (updated on a daily basis); and
- (j) the composition of dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for a rolling 12-month period.

The near real time indicative NAV per Unit in HKD, under (f) above, is indicative and for reference only. This is updated during SEHK trading hours and is calculated by ICE Data Indices, LLC or other third party interactive data vendor using the near real time indicative NAV per Unit in RMB multiplied by a near real time HKD:RMB foreign exchange rate for offshore RMB (CNH) quoted by

ICE Data Indices, LLC or other third party interactive data vendor. Since the estimated NAV per Unit in RMB will not be updated when the underlying A-Shares market is closed, the change in the estimated NAV per Unit in HKD (if any) during such period is solely due to the change in the near real time foreign exchange rate.

The last NAV per Unit in HKD, under (g) above, is indicative and for reference only and is calculated by the Trustee using the official last NAV per Unit in RMB multiplied by an assumed foreign exchange rate (i.e. not a real time exchange rate) being the exchange rate quoted by Thomson Reuters or other third party interactive data vendor for offshore RMB (CNH) at 3:00 p.m. (Hong Kong time) as of the same dealing day. Similarly, the last NAV per Unit in RMB and the last NAV per Unit in HKD will remain unchanged during the period when the A-Share market is closed for normal trading. Please refer to the Prospectus for details.

### **Important**

If you are in doubt, you should seek professional advice.

The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

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

## ***Value Partners ETFs Trust***

# **VALUE CHINA A-SHARE ETF**

*(A sub-fund of Value Partners ETFs Trust, a Hong Kong umbrella unit trust,  
authorised under Section 104 of the Securities and Futures Ordinance  
(Cap. 571) of Hong Kong)*

***RMB Counter Stock Code: 83095***

***HKD Counter Stock Code: 03095***

# **PROSPECTUS**

***Manager and RQFII Holder***

**Value Partners Hong Kong Limited**

**惠理基金管理香港有限公司**

***Investment Adviser***

**Sensible Asset Management Hong Kong Limited**

**盛寶資產管理香港有限公司**

**1 January 2020**

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

## IMPORTANT INFORMATION

This Prospectus relates to the offer in Hong Kong of units (the “Units”) in the Value China A-Share ETF (the “Sub-Fund”), a sub-fund of Value Partners ETFs Trust (the “Trust”), an umbrella unit trust established under Hong Kong law by a trust deed dated 12 March 2015 (the “Trust Deed”) between Value Partners Hong Kong Limited 惠理基金管理香港有限公司 (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited (the “Trustee”). The Sub-Fund is a physical exchange traded fund investing directly in underlying A-Shares through the Manager’s RQFII status.

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

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

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

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

Dealings in the Units on The Stock Exchange of Hong Kong Limited (the “SEHK”) have commenced. The Units have been accepted as eligible securities by Hong Kong Securities Clearing Company Limited (“HKSCC”) for deposit, clearance and settlement in the Central Clearing and Settlement System (“CCASS”) with effect from 24 March 2015. Settlement of transactions between participants on the SEHK is required to take place in CCASS on the second CCASS settlement day after the trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No action has been taken to permit an offering of Units or the distribution of this Prospectus in any jurisdiction other than Hong Kong and, accordingly, this 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 reports of the Sub-Fund (where existing) and, if later, its most recent interim report.

Neither the Trust nor the Sub-Fund is registered as an investment company with the United States Securities and Exchange Commission. Units have not been, and will not be, registered under the United States Securities Act of 1933 or any other United States Federal or State law and accordingly Units are not offered to, and may not be transferred to or acquired by, US persons (including without limitation US citizens and residents as well as business entities organised under United States’ law).

You should note that any amendment or addendum to this Prospectus will only be posted on the Manager’s website (<https://www.valueETF.com.hk/eng/value-china-a-share-etf.html>) (this website has not been reviewed by the SFC). 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 this Prospectus and they have not been reviewed by the SFC or any regulatory body. Investors should note that the information provided in websites may be updated and changed periodically without any notice to any person.

**Questions and Complaints**

Investors may raise any questions on or make any complaints about the Trust (including the Sub-Fund) by contacting the Manager at its address as set out in the Directory of this Prospectus, or by phone at its telephone number: (852) 2143 0688.

## DIRECTORY

*Manager and RQFII Holder*  
**Value Partners Hong Kong Limited**  
惠理基金管理香港有限公司  
43/F, The Center  
99 Queen's Road Central  
Hong Kong

*Investment Adviser*  
**Sensible Asset Management  
Hong Kong Limited**  
盛寶資產管理香港有限公司  
43/F, The Center  
99 Queen's Road Central  
Hong Kong

*Trustee and Registrar*  
**HSBC Institutional Trust Services (Asia)  
Limited**  
1 Queen's Road Central  
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 200120  
PRC

### *Participating Dealers*

**China Merchants Securities (HK) Co., Ltd**  
48/F, One Exchange Square  
Central  
Hong Kong

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

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

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

**BNP Paribas Securities Services**  
21/F PCCW Tower, Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

**Haitong International Securities Company  
Limited**  
22/F Li Po Chun Chambers  
189 Des Voeux Road Central,  
Hong Kong

**China International Capital Corporation  
Hong Kong Securities Limited**  
29th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**KGI Asia Limited**  
41/F Floor, Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

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

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

*HKD Counter Market Maker*  
**SG Securities (HK) Limited**  
Level 38, Three Pacific Place  
1 Queen's Road East, Hong Kong

*RMB Counter Market Maker*  
**SG Securities (HK) Limited**  
Level 38, Three Pacific Place  
1 Queen's Road East, Hong Kong

**Flow Traders Hong Kong Limited**  
Room 2803, 28/F, Hysan Place  
500 Hennessy Road, Causeway Bay  
Hong Kong

**Flow Traders Hong Kong Limited**  
Room 2803, 28/F, Hysan Place,  
500 Hennessy Road, Causeway Bay  
Hong Kong

**HSBC Securities Brokers (Asia) Limited**  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

**HSBC Securities Brokers (Asia) Limited**  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

*Service Agent*  
**HK Conversion Agency Services Limited**  
8/F, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

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

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



## CONTENTS

DEFINITIONS .....	1
SUMMARY .....	7
THE OFFSHORE RMB MARKET AND THE A-SHARES MARKET .....	14
THE AFTER LISTING OFFERING .....	17
CREATIONS AND REDEMPTIONS (PRIMARY MARKET) .....	20
EXCHANGE LISTING AND TRADING (SECONDARY MARKET) .....	31
DETERMINATION OF NET ASSET VALUE .....	33
FEES AND EXPENSES .....	35
RISK FACTORS .....	38
MANAGEMENT OF THE TRUST .....	54
STATUTORY AND GENERAL INFORMATION .....	63
TAXATION .....	72
SCHEDULE 1 INVESTMENT RESTRICTIONS, SECURITIES FINANCING TRANSACTIONS AND BORROWING .....	77
SCHEDULE 2 INDEX AND DISCLAIMER .....	83

## DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“CSRC” means the China Securities Regulatory Commission.

“Custodian” means The Hongkong and Shanghai Banking Corporation Limited, appointed as custodian in respect of assets of the Sub-Fund held through or in connection with the Manager’s RQFII status pursuant to the PRC Custodian Agreement.

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

“Dealing Deadline” in relation to any particular place and any particular Dealing Day, means the time on each Dealing Day specified in the “The Offering Phases” section of this Prospectus or such other time on a Dealing Day as the Manager may from time to time determine with the approval of the Trustee.

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

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

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

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

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

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

“FDI” means financial derivative instrument.

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

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

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

“FTSE” means FTSE International Limited.

“Group” means Value Partners Group Limited and its subsidiaries.

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

“HKEx” means Hong Kong Exchanges and Clearing Limited.

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

“IFRS” means International Financial Reporting Standards.

“Index” means the FTSE Value-Stocks China A-Share Index, the index against which the Sub-Fund is benchmarked.

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

“Index Provider” means FTSE.

“Initial Issue Date” means the date of the first issue of Units, which was the Business Day immediately before the Listing Date.

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

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

“Investment Adviser” means Sensible Asset Management Hong Kong Limited 盛寶資產管理香港有限公司.

“Listing Date” means 24 March 2015, the date on which the Units were first listed and from which dealings therein are permitted to take place on SEHK.

“Manager” or “RQFII Holder” means Value Partners Hong Kong Limited 惠理基金管理香港有限公司.

“Market” means in any part of the world:

- (a) in relation to any security: any stock exchange, over-the-counter market or other organised securities market that is open to the international public and on which such Securities are regularly traded ; and
- (b) in relation to any futures contract: any exchange, over-the-counter market or other organised futures market which is open to the international public on which such futures contract is regularly traded.

“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.

“MOF” means the Ministry of Finance of the PRC.

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

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

“Participating Dealer” means any licensed broker or dealer who is (or who has appointed an agent or delegate who is) admitted for the time being by HKSCC as a participant of CCASS and who has entered into a Participation Agreement in form and substance acceptable to the Manager and the Trustee. Any reference in this Prospectus to “Participating Dealer” shall include a reference to any agent or delegate so appointed by the Participating Dealer.

“Participation Agreement” means an agreement entered into between, among others, the Trustee, the Manager, HKSCC, HK Conversion Agency Services Limited and a Participating Dealer (and its agent, if applicable) setting out, (amongst other things), the arrangements in respect of the issue of Units and the redemption and cancellation of Units. References to the Participation Agreement shall, where appropriate, mean the Participation Agreement, read together with the Operating Guidelines.

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

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

“PRC Custodian” means HSBC Bank (China) Company Limited or such other person appointed as PRC custodian in respect of the assets of the Sub-Fund held through or in connection with the Manager’s RQFII status.

“PRC Custodian 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.

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

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

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

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

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

“Registrar” means the Trustee or such other person appointed under the Trust Deed as registrar of the Sub-Fund.

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

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

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

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

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

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

“Securities and Futures Ordinance” means the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

“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 and/or the Manager 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 is appointed by the Manager and the Trustee to provide its services entered amongst the Trustee, the Manager, the Participating Dealer (and its agent, if applicable), the Service Agent and Hong Kong Securities Clearing Company Limited.

“Settlement Day” means the Business Day which is 2 Business Days after the relevant Dealing Day (or such later Business Day as is permitted in relation to such Dealing Day pursuant to the Operating Guidelines) or such other number of Business Days after the relevant Dealing Day 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.

“Stock Connect” means the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect or any successor programme.

“Sub-Fund” means Value China A-Share ETF.

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

“Trust” means the Value Partners ETFs Trust.

“Trust Deed” means the trust deed dated 12 March 2015 between the Manager and the Trustee constituting the Trust, as amended, supplemented and/or restated from time to time.

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

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

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

“Unitholder” means a person entered on the register of holders as the holder of Units.

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

“VPISL” means Value Partners Index Services Limited.



## SUMMARY

### Key Information

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

<b>Index</b>	FTSE Value-Stocks China A-Share Index
<b>Type of Index</b>	Total return, i.e. the performance of the Index is calculated on the basis that dividends are reinvested.
<b>Initial Issue Date</b>	23 March 2015
<b>Listing Date (SEHK)</b>	24 March 2015
<b>Exchange Listing</b>	SEHK – Main Board
<b>Short Stock Name</b>	VALUE A SHARE-R – RMB Counter VALUE A SHARE – HKD Counter
<b>Stock Code</b>	83095 – RMB Counter 03095 – HKD Counter
<b>Trading Board Lot Size</b>	500 Units – RMB Counter 500 Units – HKD Counter
<b>Base Currency</b>	Renminbi (RMB)
<b>Trading Currency</b>	Renminbi (RMB) – RMB Counter Hong Kong Dollar (HKD) – HKD Counter
<b>Dividend Policy</b>	The Sub-Fund aims to make distributions semi-annually in March and September (if any) subject to the Manager's discretion. The Manager may, at its discretion, pay distributions out of or effectively out of capital of the Sub-Fund. Where distributions are distributed out of capital or effectively out of capital, this 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>
<b>Creation/Redemption Policy</b>	Cash (RMB) only
<b>Application Unit Size (only by or through Participating Dealers)</b>	Minimum 500,000 Units (or multiples thereof)

<b>Management Fee</b>	0.10% per year of the Net Asset Value
<b>Investment Strategy</b>	Full replication strategy. Please refer to the section on “What is the Investment Strategy?” below
<b>Financial Year End</b>	31 March
<b>Website</b>	<a href="https://www.valueETF.com.hk/eng/value-china-a-share-etf.html">https://www.valueETF.com.hk/eng/value-china-a-share-etf.html</a> (this website has not been reviewed by the SFC)

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

### **What is the Investment Objective?**

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

### **What is the Investment Strategy?**

In seeking to achieve the Sub-Fund’s investment objective, the Manager will use a full replication strategy through investing directly in A-Shares included in the Index in substantially the same weightings in which they are included in the Index, through the RQFII regime (as explained in the section “What is the RQFII regime?” below) and the Stock Connect (as explained in the section “Stock Connect” below). The Manager may invest up to 100% of the Sub-Fund’s Net Asset Value through either RQFII and/or the Stock Connect. The Manager will not adopt representative sampling as an investment strategy.

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 adopt investment strategy other than full replication strategy.

The Sub-Fund has no present intention to use financial derivative instruments for hedging or non-hedging purposes. Non-hedging purposes include cost reduction and investment purpose. Any change in this regard is subject to the prior approval of the SFC and not less than one month’s prior notice to Unitholders.

The Sub-Fund will not engage in any securities lending transactions, sale and repurchase transactions, reverse repurchase transactions or other similar over-the-counter transactions. Any change in this regard is subject to the prior approval of the SFC (if required) and not less than one month’s prior notice to Unitholders.

The Sub-Fund may invest up to 5% of NAV in money market instruments, cash and/or cash equivalent for cash management purposes.

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

## What is the RQFII Regime?

Under current regulations in the PRC, foreign investors can invest in the domestic securities market through certain qualified foreign institutional investors that have obtained status as a QFII or a RQFII from the CSRC to remit foreign freely convertible currencies (in the case of a QFII) and RMB (in the case of a RQFII) into the PRC for the purpose of investing in the PRC's domestic securities markets.

The RQFII regime is currently governed by (i) the "Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors" issued by the CSRC, the PBOC and the SAFE and effective from 1 March 2013 (人民幣合格境外機構投資者境內證券投資試點辦法); (ii) the "Implementation Rules for the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors" issued by the CSRC and effective from 6 March 2013 (關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》的規定); (iii) the "Circular on Issues Related to the Pilot Scheme for Domestic Securities Investment through Renminbi Qualified Foreign Institutional Investors", Huifa 2013 No. 42 (國家外匯管理局關於人民幣合格境外機構投資者境內證券投資試點有關問題的通知, 匯發[2013]42 號) issued by SAFE and effective from 21 March 2013; (iv) the "Notice of the People's Bank of China on the Relevant Matters concerning the Implementation of the Pilot Measures for Domestic Securities Investment Made by the RMB Qualified Foreign Institutional Investors", issued by the PBOC and effective from 2 May 2013 (中國人民銀行關於實施《人民幣合格境外機構投資者境內證券投資試點辦法》有關事項的通知); and (v) any other applicable regulations promulgated by the relevant authorities (collectively, the "RQFII Regulations").

All of the Sub-Fund's assets in the PRC (including onshore PRC cash deposits and its onshore A-Shares portfolio) will be held by the Custodian (through the PRC Custodian) in accordance with the terms of the PRC Custodian Agreement and PRC Participation Agreement. A securities account shall be opened with CSDCC in the joint names of the Manager (as the RQFII Holder) and the Sub-Fund. An RMB special deposit account shall also be established and maintained with the PRC Custodian in the joint names of the Manager (as the RQFII Holder) and the Sub-Fund. The PRC Custodian shall, in turn, have a cash clearing account with CSDCC for trade settlement according to applicable regulations.

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

- (a) securities account(s) with the CSDCC and maintained by the PRC Custodian and RMB 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 for the sole benefit and use of the Sub-Fund in accordance with all applicable laws and regulations of the PRC and with approvals from all competent authorities in the PRC;
- (b) 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, the PRC Custodian and any broker appointed by the Manager to execute transactions for the Sub-Fund in the PRC (a "PRC Broker"), and from the assets of other clients of the Manager (as RQFII holder), the Custodian, the PRC Custodian, and any PRC Broker;
- (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 any PRC Broker, and from the assets of other clients of the Manager (as RQFII holder) and any PRC Broker;
- (d) the Trustee, for and on behalf of the Sub-Fund, is the only entity which has a valid claim of ownership over the assets in the Securities Account(s) and the debt in the amount deposited in the Cash Account(s) of the Sub-Fund;

- (e) if the Manager (as RQFII Holder) or any PRC Broker 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 (as RQFII Holder) or such PRC Broker in liquidation in the PRC; and
- (f) if the PRC Custodian is liquidated, (i) the assets contained in the Securities Account(s) of the Sub-Fund will not form part of the liquidation assets of the PRC Custodian in liquidation in the PRC, and (ii) the assets contained in the Cash Account(s) of the Sub-Fund will form part of the liquidation assets of the PRC Custodian in liquidation in the PRC and the Sub-Fund will become an unsecured creditor for the amount deposited in the Cash Account(s).

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

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

### **Stock Connect**

Certain Sub-Funds may seek to achieve their investment objective through investing in A-shares via the Stock Connect. The Stock Connect is a securities trading and clearing linked programme developed by the HKEx, the Shanghai Stock Exchange ("SSE"), the Shenzhen Stock Exchange ("SZSE") and the CSDCC, with an aim to achieve mutual stock market access between mainland China and Hong Kong. It comprises the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

The Shanghai-Hong Kong Stock Connect comprises a Northbound Trading Link and a Southbound Trading Link. Under the Northbound Trading Link, Hong Kong and overseas investors (including the Sub-Fund), through their Hong Kong brokers and a securities trading service company established by the SEHK and the HKSCC, are able to trade eligible shares listed on the SSE by routing orders to the SSE. Under the Southbound Trading Link, eligible investors, through PRC securities firms and a securities trading service company established by the SSE, are able to trade eligible shares listed on the SEHK by routing orders to the SEHK. The same arrangement applies to the Shenzhen-Hong Kong Stock Connect.

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

- SSE-listed shares which are not traded in RMB; and
- SSE-listed shares which are included in the "risk alert board".

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

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are included in the "risk alert board" or under delisting arrangement.

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

to trade such shares.

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

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

*Trading quota* – Trading under the Stock Connect will be subject to a daily quota (“Daily Quota”), which will be separate for Northbound and Southbound trading. The Daily Quota limits the maximum net buy value of cross-boundary trades under the Stock Connect each day. The quotas do not belong to the Sub-Fund and are utilised on a first-come-first-serve basis. The SEHK will monitor the quota and publish the remaining balance of the Northbound Daily Quota at scheduled times on the HKEx’s website. The Daily Quota may change in future. The Manager will not notify investors in case of a change of quota.

*Settlement and Custody* – The HKSCC is responsible for the clearing, settlement and the provision of depository, nominee and other related services of the trades executed by Hong Kong market participants and investors.

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

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

*Trading fees* – In addition to paying trading fees and stamp duties in connection with A-Share trading, the Sub-Fund may be subject to other fees and taxes concerned with income arising from stock transfers which are determined by the relevant authorities.

*Coverage of Investor Compensation Fund* – The Sub-Fund’s investments through Northbound trading under Stock Connect is not covered by Hong Kong’s Investor Compensation Fund. Hong Kong’s Investor Compensation Fund is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of default of a licensed intermediary or authorised financial institution in relation to exchange-traded products in Hong Kong. Since default in Northbound trading via Stock Connect do not involve products listed or traded in the SEHK or the Hong Kong Futures Exchanges Limited, such trading is not covered by Hong Kong’s Investor Compensation Fund. On the other hand, since the Sub-Fund is carrying out Northbound trading through securities brokers in Hong Kong but not PRC brokers, such trading is not protected by the China Securities Investor Protection Fund (中國證券投資者保護基金) in the PRC.

Further information about the Stock Connect is available at the website: [http://www.hkex.com.hk/eng/market/sec\\_tradinfra/chinaconnect/chinaconnect.htm](http://www.hkex.com.hk/eng/market/sec_tradinfra/chinaconnect/chinaconnect.htm) (this website has not been reviewed by the SFC).

### **What are the Index’s Characteristics?**

The Index usually consists of 50 quality value stocks amongst liquid and tradeable A-Share companies listed on the SSE and the SZSE. Constituents of the Index must pass a value screening process which includes valuation, quality and contrarian factors. Companies passing through the screening process are ranked by PE ratio and the 50 companies with the lowest PE ratio are selected. Constituent stocks are capped at 10% at the semi-annual review to avoid overconcentration in any one stock. In limited circumstances and until the next semi-annual

review, the Index may consist of fewer or more than 50 stocks according to the Index's rules such as where there is a stock split, merger or a fast entry of a stock following an initial public offer. Although there is no maximum or minimum number of constituents in such circumstances, at the time of the Index review, the maximum number of constituents is 50 stocks.

The Index is a value-based equity total return, free float-adjusted market capitalisation-weighted index calculated, maintained and published by FTSE. The Index was designed by VPISL, which is a Connected Person of the Manager and the Investment Adviser and VPISL is responsible for undertaking the index screening review of the Index. However, VPISL is operationally independent of the Manager and the Investment Adviser.

The Index is denominated in RMB. It was launched on 22 February 2011 and has a base date of 31 May 2005 and a base value of 1,000. As of 29 November 2019, it had a total market capitalisation of RMB 10,227.715 billion and 50 constituents.

The Index is calculated and disseminated in RMB via Bloomberg and Thomson Reuters on a real time basis.

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

### **Are there any Special RMB Payment or Account Procedures?**

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

Application monies from Participating Dealers to the Sub-Fund will be paid in RMB only. Accordingly a Participating Dealer may require you (as its client) to pay RMB to it. Payment details will be set out in the relevant Participating Dealer's documentation such as the application form for its clients. As such, you may need to have opened a bank account (for settlement) and a securities dealing account if a Participating Dealer is to subscribe for Units on your behalf as you will need to have accumulated sufficient RMB to pay at least the aggregate Issue Price and related costs which are payable in RMB, 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 such brokers' readiness for dealing and/or clearing transactions in RMB securities and to check other relevant information published by the SEHK regarding readiness of its participants for dealing in RMB securities from time to time. CCASS Investor Participants who wish to settle the payment in relation to their trades in the Units traded in RMB using their CCASS Investor Participant account or to receive distributions in RMB should make sure that they have set up an RMB designated bank account with CCASS.

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

before any dealing in Units traded in either HKD or RMB can be effected.

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

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

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

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

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

### **Umbrella Fund**

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

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

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



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

### **The Offshore RMB Market**

#### What led to RMB Internationalisation?

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

As the PRC's economy becomes increasingly integrated with the rest of the world, it is a natural trend for its currency – the RMB, to become more widely used in the trade and investment activities.

#### Onshore versus Offshore RMB Market

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

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

It is widely expected that the onshore and offshore RMB markets would remain 2 segregated, but highly related, markets for the next few years.

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

Given the PRC'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 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.

### **The A-Share Market**

#### Introduction

The PRC's A-Share market commenced in 1990 with 2 exchanges, the SSE and SZSE. The SSE was established on 26 November 1990 and stocks are further divided into class A-Shares and class B-Shares, with access to A-Shares limited to domestic investors as well as QFII and RQFII or through Stock Connect only and B-Shares available to both domestic and foreign investors. The SSE's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified derivative financial products (including warrants and repurchases).

The SZSE was founded on 1 December 1990 and stocks are further divided into class A-Shares and class B-Shares, with A-Shares limited to domestic investors as well as QFIIs and RQFIIs or through Stock Connect only and B-Shares available to both domestic and foreign investors. SZSE's products cover equities, mutual funds and bonds. The product lines include A-Shares, B-Shares, indices, mutual funds (including exchange traded funds and listed open-end funds), fixed income products, and diversified derivative financial products (including warrants and repurchases).

In terms of investor breakdown, there is an increasing number of institutional investors participating in the A-Shares market since the inception, which include securities investment funds, social pension funds, qualified foreign institutional investors, insurance companies, ordinary investment institutions. However, on a daily basis, retail investors still make up for the majority of the trading volume.

#### Differences with Hong Kong's Stock Market

The following table summarises the differences between the Hong Kong and A-Share markets:

	<b>PRC</b>	<b>Hong Kong</b>
<b>Key indexes</b>	SHCOMP / SZCOMP	HSI / HSCEI
<b>Trading band limits</b>	10% ( 5% for ST/S stocks*)	No Limit
<b>Trading lots</b>	100 shares for BUY / 1 share for SELL	Each stock has its own individual board lot size (an online broker will usually display this along with the stock price when you get a quote); purchases in amounts which are not multiples of the board lot size are done in a separate "odd lot market".
<b>Trading hours</b>	pre-open: 0915-0925 morning session: 0930-1130 afternoon session: 1300-1500 (1457-1500 is closing auction for the Shenzhen Stock Exchange)	pre-open order input: 0900-0915 pre-order matching 0915-0920 order matching: 0920-0928 morning session: 0930-1200 afternoon session: 1300-1600
<b>Settlement</b>	T+1	T+2
<b>Earnings reporting requirements</b>	Annual report: • Full annual report must be disclosed within 4 months after the reporting	Annual report: • Earnings must be disclosed within 3 months after the reporting period;

	<p>period.</p> <p>Interim report:</p> <ul style="list-style-type: none"> <li>• Full report must be disclosed within 2 months after the reporting period.</li> </ul> <p>Quarterly report:</p> <ul style="list-style-type: none"> <li>• Full report must be disclosed within 1 month after the reporting period.</li> </ul> <p>The first quarterly report cannot be disclosed before last year's annual report.</p>	<ul style="list-style-type: none"> <li>• Full annual report must be disclosed within 4 months after the reporting period.</li> </ul> <p>Interim report:</p> <ul style="list-style-type: none"> <li>• Earnings must be disclosed within 2 months after the reporting period;</li> <li>• Full report must be disclosed within 3 months after the reporting period.</li> </ul>
--	---	---

*Note:*

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

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

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

## THE AFTER LISTING OFFERING

### After Listing

The After Listing phase commences on the Listing Date and continues until the Sub-Fund is terminated. Dealings in the Units on the SEHK commenced on 24 March 2015.

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

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

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

After Listing, all investors can buy and sell Units in Trading Board Lot Size (as described in the section on “Summary”) or whole multiples thereof like ordinary listed stocks through an intermediary such as a stockbroker or through any of the share dealing services offered by banks or other financial advisers at any time the SEHK is open. The Trading Board Lot Size is currently 500 Units.

However, please note that transactions in the secondary market on the SEHK will occur at market prices which may vary throughout the day and may differ from the 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 the 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 or multiples thereof. The Application Unit Size is currently 500,000 Units.

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

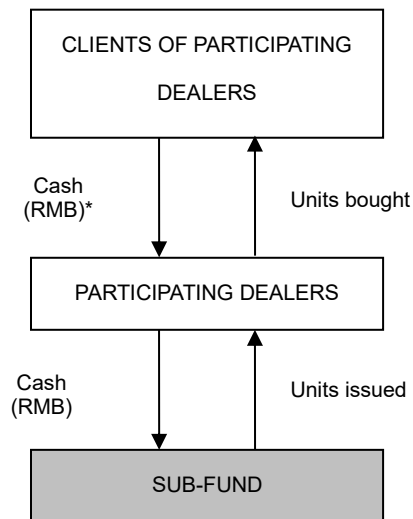
Settlement in cash for subscribing Units is due on the Dealing Day, unless the Manager agrees with the relevant Participating Dealer to accept later settlement generally or in any particular case. Settlement in cash for redemption of Units is due 2 Business Days after the Dealing Day. Notwithstanding the Dual Counter for Units, all settlement for creation and redemption of Units shall be in RMB only.

After Listing, all Units will be 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

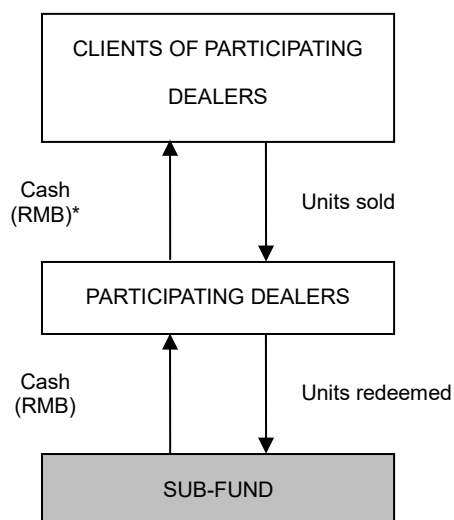
The diagrams below illustrate the issue or redemption and the buying or selling of Units:

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



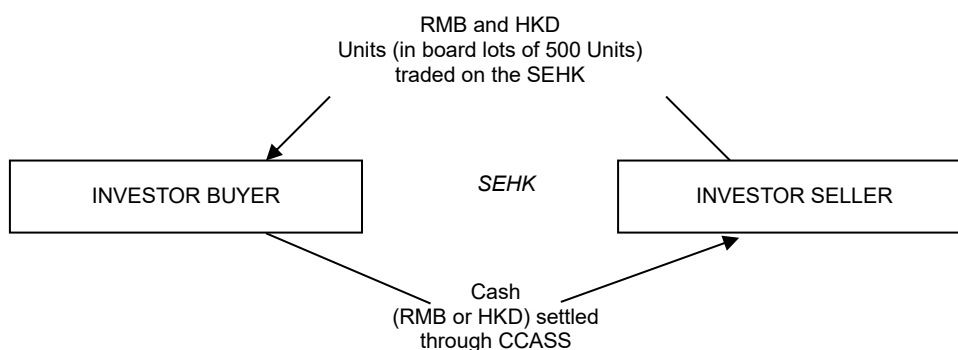
\* Clients of the Participating Dealers may agree with the Participating Dealers settlement in another currency.

### (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

<b><u>Method of Acquisition or Disposal of Units</u></b>	<b><u>Minimum Number of Units (or multiple thereof)</u></b>	<b><u>Channel</u></b>	<b><u>Available to</u></b>	<b><u>Consideration, Fees and Charges*</u></b>
Purchase and sale in cash through brokers on the SEHK (secondary market) in HKD or in RMB	Board lot of 500 Units for HKD traded Units and 500 Units for RMB traded Units	On the SEHK	Any investor	Market price of Units on SEHK (RMB for RMB traded Units and HKD for HKD traded Units)  Brokerage fees and Duties and Charges (payable in HKD or as agreed with brokers)
Cash creation and cash redemption (RMB only)	500,000 (Application Unit)	Through Participating Dealers only	Any person acceptable to the Participating Dealer as its client	Cash (payable in RMB only unless the Participating Dealer otherwise agrees)  Transaction Fee and Service Agent's Fee (payable in HKD)  Any fees and charges imposed by the Participating Dealer (payable to the Participating Dealer in the currency determined by or agreed with it)  Duties and Charges (payable in RMB)

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

## CREATIONS AND REDEMPTIONS (PRIMARY MARKET)

### Investment in the Sub-Fund

There are two 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 prior arrangement with the Manager, elect to have Units which it creates deposited in CCASS in either the RMB counter or in the HKD counter, all creations and redemptions 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 Participating Dealer

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

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

Each 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 (a) mutual agreement between the relevant Participating Dealer and you as to its fees for handling such request(s); (b) completion to its satisfaction of client acceptance procedures and requirements; (c) no objection from the Manager to create Units for the relevant 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 (d) mutual agreement between the relevant Participating Dealer and you as to the method of effecting such creation request(s).

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;



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

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

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

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

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

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

The Application Unit size for the Sub-Fund is 500,000 Units. Creation Applications submitted in respect of Units other than in Application Unit size or whole multiples thereof will not be accepted. The minimum subscription for the Sub-Fund is one Application Unit.

#### *Creation process*

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

If a Creation Application is received on a day which is not a Dealing Day or is received after the Dealing Deadline on a Dealing Day, that Creation Application shall be rejected. The current Dealing Deadline 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 are reduced.

To be effective, a Creation Application must:

- (a) be given by a Participating Dealer in accordance with the Trust Deed, the relevant Participation Agreement and the relevant Operating Guidelines;

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

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where in the opinion of the Manager, acceptance of the Creation Application would have an adverse effect on the Sub-Fund;
- (c) where in the opinion of the Manager, acceptance of the Creation Application would have a material impact on the A-Shares or relevant market;
- (d) where the Manager's RQFII status cannot fully satisfy the Creation Application;
- (e) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (f) where acceptance of the Creation Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons necessary for compliance with applicable legal and regulatory requirements;
- (g) circumstances outside the control of the Manager make it for all practicable purposes impossible to process the Creation Application;
- (h) the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian or any agent of the Trustee on which the Trustee relies to effect creation 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
- (i) 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.

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

#### *Issue of Units*

Units will be issued at the Issue Price prevailing on the relevant Dealing Day, provided that the Manager 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 Settlement Day following the relevant Dealing Day on which the Creation Application is received and accepted in accordance with the Operating Guidelines but, 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 the register will be updated on the Settlement Day or the Dealing Day immediately following the Settlement Day if the settlement period is extended. 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 and/or the Manager. See the section on “Fees and Expenses” for further details.

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

#### Cancellation of Creation Applications

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

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

Upon the cancellation of any creation order of any Units deemed created pursuant to a Creation Application as provided for above or if a Participating Dealer otherwise withdraws a Creation Application other than in certain circumstances contemplated in the Trust Deed, 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 Participating Dealer

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

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

Each 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 (a) mutual agreement between the relevant Participating Dealer and you as to its fees for handling such request(s); (b) completion to its satisfaction of client acceptance procedures and requirements; (c) no objection from the Manager to redeem Units for the relevant 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 (d) mutual agreement between the relevant Participating Dealer and you as to the method of effecting such redemption request(s).

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;

- (c) where acceptance of the redemption request would render the Participating Dealer in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Participating Dealer and/or any of its Connected Persons; or
- (d) circumstances outside the control of the Participating Dealer make it for all practicable purposes impossible to process the redemption request.

*Requirements relating to redemption requests by potential investors*

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

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

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

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

*Redemption process*

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

If a Redemption Application is received on a day which is not a Dealing Day or is received after the relevant Dealing Deadline on a Dealing Day, that Redemption Application shall be rejected. The current Dealing Deadline 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 are reduced.

To be effective, a Redemption Application must:

- (a) be given by a Participating Dealer in accordance with the Trust Deed, the relevant Participation Agreement and the relevant Operating Guidelines;
- (b) specify the number of Units and the class of Units (where applicable) which is the subject of the Redemption Application; and
- (c) include the certifications required in the Operating Guidelines (if any) in respect of redemptions of Units, together with such certifications and opinions of counsel (if any) as

each of the Trustee and the Manager may separately consider necessary to ensure compliance with applicable securities and other laws in relation to the redemption of Units which are the subject of the Redemption Application.

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

- (a) any period during which (i) the creation or issue of Units of the Sub-Fund, (ii) the redemption of Units of the Sub-Fund, and/or (iii) the determination of Net Asset Value of the Sub-Fund is suspended;
- (b) where in the opinion of the Manager, acceptance of the Redemption Application would have an adverse effect on the Sub-Fund;
- (c) where there is in existence any trading restriction or limitation such as the occurrence of a market disruption event, suspected market misconduct or the suspension of dealing in relation to any of the Securities in the Index;
- (d) where acceptance of the Redemption Application would render the Manager in breach of any regulatory restriction or requirement, internal compliance or internal control restriction or requirement of the Manager and/or any of its Connected Persons 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) the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian or any agent of the Trustee on which the Trustee relies to effect redemption 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 (a) effect the redemption and cancellation of the relevant Units; and (b) 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 (where applicable) 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 and cancellation shall be the Net Asset Value per Unit of the Sub-Fund rounded to the nearest four decimal places (0.00005 or above being rounded up). The benefit of any rounding adjustments will be retained by the Sub-Fund. For the purpose of valuation, the relevant Valuation Point shall be the Valuation Point for the Dealing Day on which the Redemption Application is treated as having been received.

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

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

#### *Fees relating to Redemption Applications*

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

The Manager and Trustee may deduct from the redemption proceeds such sum (if any) as the Manager and 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 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 other percentage as the Manager may determine in respect of the Sub-Fund) of the total Net Asset Value of the Sub-Fund, 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% of the total Net Asset Value of the Sub-Fund on such Dealing Day. 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% of the total Net Asset Value of the Sub-Fund on that Dealing Day) 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 delay the payment of any monies in respect of any 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 depositary (if any) of such Market, is closed;
- (c) during any period when dealings 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 depositary (if any) of such Market is disrupted;
- (e) during the existence of any state of affairs as a result of which delivery or purchase of Securities, as appropriate or disposal of investments for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, be effected normally or without prejudicing the interests of Unitholders of the Sub-Fund;
- (f) during any period when the Index is not compiled or published;



- (g) during any breakdown in any of the means normally employed in determining the Net Asset Value of the Sub-Fund or when for any other reason the value of any Securities or other property for the time being comprised in the Sub-Fund cannot, in the opinion of the Manager, reasonably, promptly and fairly be ascertained;
- (h) during any period when the determination of the Net Asset Value of the Sub-Fund is suspended or if any circumstance specified in the section on “Suspension of determination of Net Asset Value” below arises; or
- (i) during any period when the business operations of the Manager, the Trustee, the Custodian or the PRC Custodian or any agent of the Trustee on which the Trustee relies to effect creations or redemptions 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 in Schedule 1. In addition, where all the sub-funds of the Trust hold in aggregate more than the limit of 10% of the ordinary shares issued by any single issuer, 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 and unitholders of other sub-funds concerned.

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 <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has 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 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 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).

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

## EXCHANGE LISTING AND TRADING (SECONDARY MARKET)

### General

Application has been made to the Listing Committee of the SEHK for the listing of, and permission to deal in the Units.

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

Dealings on the SEHK in Units (in both counters) has begun on 24 March 2015.

Units traded in HKD and Units traded in RMB will each trade on the SEHK in board lots of 500 Units. Participating Dealers should note that they will not be able to sell or otherwise deal in the Units (in either the HKD or the RMB counter) on the SEHK until dealings begin on the SEHK.

The purpose of the listing of the Units (in either the HKD or the RMB counter) 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 in either counter (HKD or RMB) 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 in either counter (HKD or RMB) are listed on the SEHK they will remain listed.

The Manager will use its best endeavours to put in place arrangements so that at least one Market Maker will maintain a market for Units traded in RMB and at least one Market Maker will maintain a market for Units traded in HKD (although the Market Maker for both counters may be the same entity) and that at least one Market Maker is required to give not less than 3 months' notice prior to terminating market making under the relevant market making agreement. Broadly, the obligations of a Market Maker will include quoting bid and offer prices on the SEHK with the intention of providing liquidity. Given the nature of the Market Maker's role, the Manager will make available to a Market Maker the portfolio composition information made available to a Participating Dealer.

Units in either counter (HKD or RMB) may be purchased from and sold through a Market Maker. However, there is no guarantee or assurance as to the price at which a market will be made. In maintaining a market for Units in either counter (HKD or RMB), 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 in either counter (HKD or RMB) on the secondary market, you should contact your brokers.

Subject to the granting of listing of, and permission to deal in, the Units (in each counter, RMB and HKD) on the SEHK as well as the compliance with the stock admission requirements of HKSCC, the Units will be 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.

## Renminbi Equity Trading Support Facility

The Renminbi Equity Trading Support Facility (the “TSF”) was launched on 24 October 2011 by HKEx to provide a facility to enable investors who wish to buy RMB-traded shares (RMB shares) in the secondary market with Hong Kong dollars if they do not have sufficient RMB or have difficulty in obtaining RMB from other channels. With effect from 6 August 2012, the coverage of TSF was extended and the Sub-Fund is eligible for the TSF. As such the TSF is currently available to investors who wish to invest in the Sub-Fund by purchasing Units trading in RMB on the SEHK. Investors should consult their financial advisers if they have any questions concerning the TSF. More information with regard to the TSF is available on HKEx’s website [https://www.hkex.com.hk/Global/Exchange/FAQ/Featured/RMB-Readiness-and-Services/RMB-Equity-Trading-Support-Facility?sc\\_lang=en](https://www.hkex.com.hk/Global/Exchange/FAQ/Featured/RMB-Readiness-and-Services/RMB-Equity-Trading-Support-Facility?sc_lang=en) (this website has not been reviewed by the SFC).

## Dual Counter

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

Units traded on both counters are of the same class and all unit holders of both counters are treated equally. The two counters will have different stock codes, different stock short names and different ISIN numbers as follows: RMB counter and traded Units have a SEHK stock code 83095 and a short name “VALUE A SHARE-R” whilst the HKD counter and traded Units have a SEHK stock code 03095 and a short name “VALUE A SHARE”. The ISIN for RMB counter and traded Units is HK0000240686 and the ISIN for HKD counter and traded Units is HK0000240694.

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

More information with regard to the Dual Counter is available in the frequently asked questions in respect of the Dual Counter published on HKEx’s website [https://www.hkex.com.hk/Global/Exchange/FAQ/Featured/RMB-Readiness-and-Services/Dual-Tranche-Dual-Counter-Model?sc\\_lang=en](https://www.hkex.com.hk/Global/Exchange/FAQ/Featured/RMB-Readiness-and-Services/Dual-Tranche-Dual-Counter-Model?sc_lang=en) (this website has not been reviewed by the SFC).

## Fees and Expenses

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

## **DETERMINATION OF NET ASSET VALUE**

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

The Net Asset Value of the Sub-Fund will be calculated by valuing the assets of the Sub-Fund and deducting the liabilities attributable to the Sub-Fund, in accordance with the terms of the Trust Deed.

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

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

The Trustee shall, on the instruction of the Manager, perform any currency conversion at such foreign exchange rate or rates as the Manager shall deem appropriate.

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

### **Suspension of Determination of Net Asset Value**

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

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

investments of the Sub-Fund; or

- (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 or any agent of the Trustee on which the Trustee relies to effect the determination of Net Asset Value 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 <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC) or in such other publications as the Manager decides.

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

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

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

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

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

The Issue Price and the Redemption Value (or the latest Net Asset Value of the Units) will be available on the Manager's website at <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC) or published in such other publications as the Manager decides.

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

## FEES AND EXPENSES

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

<b>(a) Fees and expenses payable by Participating Dealers (unless otherwise specified) on creations and redemptions (as applicable) of Units</b>	<b>Amount</b>
Transaction Fee	RMB3,450 <sup>1</sup> per Application
Service Agent's Fee	HKD1,000 <sup>2</sup> per each book-entry deposit or book-entry withdrawal transaction
Application cancellation fee	RMB8,000 <sup>3</sup> per Application
Extension Fee	RMB8,000 <sup>4</sup> per Application
Stamp duty	Nil
All other Duties and Charges incurred by the Trustee or the Manager in connection with the creation or redemption	As applicable
<b>(b) Fees and expenses payable by investors</b>	<b>Amount</b>
<b><i>(i) Fees payable by clients of the Participating Dealers in respect of creations and redemptions (as applicable) via the Participating Dealer</i></b>	
Fees and charges imposed by the Participating Dealer <sup>5</sup>	Such amounts as determined by the relevant Participating Dealer
<b><i>(ii) Fees payable by all investors in respect of dealings in the Units on SEHK (applicable After Listing)</i></b>	
Brokerage	Market rates
Transaction levy	0.0027% <sup>6</sup>

<sup>1</sup> The Transaction Fee is payable by a Participating Dealer and/or the Manager to the Trustee for the benefit of the Trustee and/or Registrar. A Participating Dealer may pass on to the relevant investor such fee. The Registrar will charge the Trustee (for its own account) a registrar fee for each Creation Application and Redemption Application.

<sup>2</sup> The Service Agent's fee of HKD1,000 is payable by a Participating Dealer and/or the Manager to the Service Agent for each book-entry deposit or book-entry withdrawal transaction. A Participating Dealer may pass on to the relevant investor such fee.

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

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

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

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

SEHK trading fee	0.005% <sup>7</sup>
Stamp duty	Nil
Inter-counter transfer	HKD5 <sup>8</sup>
<b>(c) Fees and expenses payable by the Sub-Fund</b>	(See further disclosure below)

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

## **Fees and Expenses Payable by the Sub-Fund**

### Manager's Fee

The Manager is entitled to receive out of the Trust Fund a management fee of up to a maximum of 1.00% per year of the Net Asset Value of the Sub-Fund. The current management fee is 0.10% per year of the Net Asset Value of the Sub-Fund, and is accrued daily and calculated as at each Dealing Day and payable monthly in arrears. This fee is payable out of the Trust Fund.

The Manager will be responsible for the payment of the fees (if any) of the Investment Adviser out of its management fee and such fees shall not be borne by the Sub-Fund.

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

### Trustee's and Registrar's Fee

The Trustee is entitled to receive out of the Trust Fund a trustee and registrar fee of up to a maximum of 1.00% per year of the Net Asset Value of the Sub-Fund. The current trustee and registrar fee, which is accrued daily and calculated as at each Dealing Day and payable monthly in arrears, is 0.10% per year of the Net Asset Value.

The trustee and registrar fee is subject to a minimum of RMB30,000 per month.

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

The Trustee pays the fees (if any) of the Custodian and the PRC Custodian. Such fees shall not be borne by the Sub-Fund.

### Service Agent's Fee

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

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

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

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



### 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 Securities and Futures Ordinance, 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 interim financial reports and other circulars relating to the Sub-Fund and the expenses of publishing Unit prices.

### **Increase in Fees**

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

## RISK FACTORS

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

### Risks Associated With the RQFII Regime

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

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

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

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

**PRC Custodian and PRC Broker Risk.** Onshore PRC assets will be maintained by the PRC Custodian in electronic form via a securities account with the CSDCC and a special deposit account with the PRC Custodian.

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

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

Investors should note that cash deposited in the special deposit 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 special deposit account, and 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 RQFIs in respect of a fund such as the Sub-Fund conducted in RMB are permitted daily and are not subject to any lock-up periods or prior approval. There is no assurance, however, that PRC rules and regulations will not change or that repatriation restrictions will not be imposed in the future. Any restrictions on repatriation of the invested capital and net profits may impact on the Sub-Fund's ability to meet redemption requests from Unitholders.

**RQFI Status Risk.** There can be no assurance that the RQFI status of the Manager will not be suspended or revoked. In such event, it may be necessary for the Manager to suspend creations of Units. As a result, the trading price of a Unit on the SEHK may be at a significant premium to the Net Asset Value of each Unit (which may also increase tracking error of the Sub-Fund).

### **Risks Associated with RMB Currency**

**RMB is Not Freely Convertible and Subject to Exchange Controls and Restrictions Risk.** It should be noted that the RMB is currently not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Since 1994, the conversion of RMB into US dollar has been based on rates set by the PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, the PRC 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 onshore RMB exchange rate by expanding the daily trading band from +/- 0.5% to +/- 1%. However it should be noted that the PRC government's policies on exchange control and repatriation restrictions are subject to change, and any such change may adversely impact the Sub-Fund. There can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.

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

**RMB Trading and Settlement of Units Risk.** The trading and settlement of RMB denominated securities are recent developments in Hong Kong and there is no assurance that there will not be problem with the systems or that other logistical problems will not arise. Although end-to-end simulation trading and clearing of listed RMB products testing sessions and payment pilot runs for participants of the SEHK were held by the SEHK in March, September and October 2011, some brokers may not have participated in such testing sessions and pilot runs and for those who have, not all of them may be able to successfully complete such testing sessions and pilot runs, there is no assurance of their readiness for dealing in RMB denominated securities. Investors should note that not all brokers may be ready and able to carry out trading and settlement of RMB traded Units and thus they may not be able to deal in the RMB traded Units through some brokers. Investors

should check with their brokers in advance if they intend to engage Dual Counter trading or in inter-counter transfers and should fully understand the services which the relevant broker is able to provide (as well as any associated fees). Some exchange participants may not provide inter-counter transfer or Dual Counter trading services.

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

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

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

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

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

However, the current size of RMB-denominated financial assets outside the PRC is limited. In addition, participating authorised institutions are also required by the Hong Kong Monetary Authority to maintain a total amount of RMB (in the form of cash and its settlement account balance with the Renminbi Clearing Bank) of no less than 25% of their RMB deposits, which further limits the availability of RMB that participating authorised institutions can utilise for conversion services for their customers. RMB business participating banks do not have direct RMB liquidity support from PBOC. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC (subject to annual and quarterly quotas imposed by PBOC) to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source RMB from the offshore market to square such open positions. Although it is expected that the offshore RMB market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the 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 may affect the ability of investors to acquire Units or to sell Units of Sub-Fund 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.

### **Risks Associated With the PRC**

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

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

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

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

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

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

**Restricted Markets Risk.** The Sub-Fund may invest in A-Shares in respect of which the PRC imposes limitations or restrictions on foreign ownership or holdings. Such restrictions or limitations on ownership may have adverse effects on the liquidity of the Sub-Fund and the performance of the Sub-Fund holdings as compared to the performance of the Index. This may cause tracking error and, at worst, the Sub-Fund may not be able to achieve its investment objective.

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

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

**PRC Taxation Risk.** The tax laws, regulations and practice in the PRC are constantly changing, and they may be changed with retrospective effect. Any increased tax liabilities on a Sub-Fund may adversely affect a Sub-Fund's value.

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

For further details on the risks and effects of PRC taxation on a Sub-Fund, please refer to the heading entitled "PRC Taxation" in the section on "TAXATION".

**Government Intervention and Restriction Risk.** Governments and regulators may also intervene in the financial markets, such as by the imposition of trading restrictions, a ban on short selling or the suspension of short selling for certain stocks. This may affect the operation and market making activities of the Sub-Fund, and may have an unpredictable impact on the Sub-Fund, including increasing or decreasing the level of premium or discount of the Unit price to Net Asset Value or the ability of the Sub-Fund to track the Index.

## Investment Risks

**New Product Risk.** The Sub-Fund is a physical RQFII, RMB denominated exchange traded fund investing directly in A-Shares. The RQFII regime is relatively new and so makes the Sub-Fund riskier than traditional exchange traded funds investing in markets other than the PRC.

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

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

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

**Passive Investment Risk.** The Sub-Fund is not actively managed. Accordingly, the Sub-Fund may be affected by a decline in the market segments relating to the Index. The Sub-Fund invests directly in the A-Shares included in the Index regardless of their investment merit. The Manager does not attempt to select stocks 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 falls in the Index are expected to result in corresponding falls in the value of the Sub-Fund.

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

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

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

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

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

**Tracking Error Risk.** Although the Manager will adopt a full replication strategy, there can be no assurance of exact or identical replication at any time of the performance of the Index. The Net Asset Value of the Sub-Fund may not correlate exactly with the Index. Factors such as the fees and expenses of the Sub-Fund, imperfect correlation between the Sub-Fund's assets and the A-Shares constituting the Index, inability to rebalance the Sub-Fund's holdings of A-Shares in response to changes in the constituents of the Index, rounding of A-Share prices, and changes to the regulatory policies may affect the Manager's ability to achieve close correlation with the Index.

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

**Mid-capitalised Companies Risk.** Investments by the Sub-Fund in shares of smaller capitalised or unseasoned companies generally have greater earnings and sales growth potential than larger capitalised companies. However, such investments in smaller capitalised or unseasoned companies may involve greater risks, such as limited product lines, markets and financial or managerial resources. In addition, less frequently traded stocks of these companies may be more illiquid and subject to more abrupt price movements than stocks of larger capitalised companies.

**Foreign Exchange Risk.** The Units of the Sub-Fund traded on the HKD counter on the SEHK are traded and settled in Hong Kong dollars, but the Net Asset Value of the Sub-Fund and the Index are calculated in Renminbi and the investment portfolio of the Sub-Fund will comprise investments denominated in Renminbi. Accordingly, Unitholders of HKD traded Units will be exposed to foreign exchange currency risks arising from the fluctuations of Hong Kong dollar and Renminbi. You may suffer a loss if Renminbi depreciates against Hong Kong dollar, irrespective of the positive performance of the Index.

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

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

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

**Liquidity Risk.** Following listing on the SEHK, it is unlikely that the Units will initially be widely held.



Accordingly, any investor buying Units in small numbers may not necessarily be able to find other buyers should that investor wish to sell. To address this risk, one or more Market Makers have been appointed.

**Counterparty Risk to the Custodian Risk.** The Sub-Fund will be exposed to the credit risk of any custodian or any depository used by the custodian where cash is held by the custodian or other depositories. In the event of the insolvency of the custodian or other depositories, the Sub-Fund will be treated as a general creditor of the custodian or other depositories in relation to cash holdings of the Sub-Fund. The Sub-Fund's Securities are however maintained by the custodian or other depositories in segregated accounts and should be protected in the event of insolvency of the custodian or other depositories.

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

**Distributions May Not be Paid Risk.** Whether the Sub-Fund will pay distributions on Units is subject to the Manager's distribution policy and also depends on dividends declared and paid in respect of the constituents of the Index. Dividend payment rates in respect of such Securities will depend on factors beyond the control of the Manager or Trustee including, general economic conditions, and the financial position and dividend policies of the relevant underlying entities. There can be no assurance that such entities will declare or pay dividends or distributions. As such the Sub-Fund may not make distributions.

**Distributions Out of or Effectively Out of Capital Risk.** The Manager may, at its discretion make distributions out of capital. The Manager may also, at its discretion, make distributions 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 distributions by the Sub-Fund and therefore, the Sub-Fund may effectively pay distributions out of the capital. Payment of distributions 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 distributions out of or effectively out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per Unit. The Manager may amend its distribution policy subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

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

**Borrowing Risks.** The Trust may borrow for the account of the Sub-Fund subject to the limit set out in the Trust Deed 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.

**No Right to Control the Sub-Fund's Operation Risk.** Investors will have no right to control the daily operations, including investment and redemption decisions, of the Sub-Fund.

**Reliance on the Manager Risk.** Although the Manager group has significant experience of managing ETFs, including one ETF trading in RMB and the Manager has key personnel with experience in managing unlisted equity funds investing in A-Shares, the Manager has no experience of managing ETFs which invest directly in the A-Share market. As such, the ability of the Fund to achieve its investment objective may be adversely affected. Unitholders must rely upon the Manager in formulating the investment strategies and the performance of the Sub-Fund is largely dependent on the services and skills of its officers and employees. In the case of loss of service of the Manager or any of its key personnel, as well as any significant interruption of the Manager's business operations or in the extreme case of the insolvency of the Manager, the Trustee may not find successor managers with the requisite skills, qualifications and RQFII status quickly (or at all) and the new appointment may not be on equivalent terms or of similar quality. Therefore, the occurrence of those events could cause a deterioration in the Sub-Fund's performance and investors may lose money in those circumstances.

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

**Stock Connect Risk.** The Sub-Fund's investments through the Stock Connect may be subject to the following risks in addition to the risks associated with RMB currency and with the PRC. In the event that the Sub-Fund's ability to invest in A-Shares through the Stock Connect on a timely basis is adversely affected, the Manager will rely on RQFII investments to achieve the Sub-Fund's investment objective. As the majority of the Sub-Fund's investments will be made via RQFII, the impact on the Sub-Fund in the event of disruption of the Stock Connect should be limited.

*Quota limitations:* The Stock Connect is subject to quota limitations. In particular, once the remaining balance of the Northbound Daily Quota drops to zero or the Northbound Daily Quota is exceeded during the opening call session, new buy orders will be rejected (though investors will be allowed to sell their cross-boundary securities regardless of the quota balance). The Sub-Fund's ability to invest in A-Shares through the Stock Connect may be affected.

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

*Operational risk:* The Stock Connect provides a new channel for investors from Hong Kong and overseas to access the PRC's stock market directly. Market participants are able to participate in this programme subject to meeting certain information technology capability, risk management and other requirements as may be specified by the relevant exchange and/or clearing house. Market participants may need to address issues arising from these differences (as well as the fact that the securities regime and legal systems of the PRC and Hong Kong differ significantly) on an on-going basis.

Further, the "connectivity" in the Stock Connect requires routing of orders across the border. This requires the development of new information technology systems on the part of the SEHK and exchange participants. There is no assurance that the systems of the SEHK and market participants will function properly or will continue to be adapted to changes and developments in both markets. In the event that the relevant systems failed to function properly, trading in both markets through the programme could be disrupted.

*No Protection by Investor Compensation Fund risk:* Investment through the Stock Connect is conducted through broker(s), and is subject to the risks of default by such brokers in their obligations. As disclosed under the section on "What is Shanghai-Hong Kong Stock Connect?", the Sub-Fund's investments through Northbound trading under the Stock Connect is not covered by the Hong Kong's Investor Compensation Fund. Therefore the Sub-Fund is exposed to the risks of default of the broker(s) it engages in its trading in A-Shares through the programme.

*Regulatory risk:* The Stock Connect is novel in nature, and will be subject to regulations promulgated by regulatory authorities and implementation rules made by the stock exchanges in the PRC and Hong Kong. Further, new regulations may be promulgated from time to time by the regulators in connection with operations and cross-border legal enforcement in connection with cross-border trades under the Stock Connect. The regulations are untested and there is no certainty as to how they will be applied, and are subject to change. There can be no assurance that the Stock Connect will not be abolished.

*Settlement and corporate actions risks:* HKSCC is responsible for settlement in respect of trades executed for the Sub-Fund. HKSCC will also be treated as the shareholder of the SSE Securities which it will monitor and of which it will seek to notify investors such as the Sub-Fund. The Sub-Fund will therefore depend on HKSCC for both settlement and notification and implementation of corporate actions.

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

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

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

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

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

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

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

**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) 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.

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

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

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

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

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

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

**Reliance on Participating Dealers Risk.** The creation and redemption of Units may only be effected through Participating Dealers. A Participating Dealer may charge a fee for providing this service. Participating Dealers will not be able to create or redeem Units during any period when, amongst other things, dealings on the SEHK are restricted or suspended, settlement or clearing of Securities through 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 one Participating Dealer at any given time, there is a risk that investors may not always be able to create or redeem Units freely.

Where a Participating Dealer appoints an agent or delegate (who is a CCASS participant) to perform certain CCASS-related functions, if the appointment is terminated and the Participating Dealer fails to appoint an alternative agent or delegate, or if the agent or delegate ceases to be a CCASS participant, the creation or redemption of Units by such Participating Dealer may also be affected.

## **Risks Associated with the Index**

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

**Licence to Use Index May be Terminated Risk.** The Manager is granted a licence by the Index Provider to use the Index to create the Sub-Fund based on the Index and to use certain trade marks and any copyright in the Index. The Sub-Fund may not be able to fulfil its objective and may be terminated if the licence agreement is terminated. The initial term of the licence agreement was 2 years and is thereafter renewable annually. There can be no guarantee that the licence agreement will be perpetually renewed. For further information on the grounds for terminating the licence agreement, please refer to the section on "Index Licence Agreement". The Sub-Fund may also be terminated if the Index ceases to be compiled or published and there is no replacement Index using the same or substantially similar formula for the method of calculation as used in calculating the Index.

**Compilation of Index Risk.** The Securities of the Index are determined and composed by the Index Provider without regard to the performance of the Sub-Fund. The Sub-Fund is not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider makes no representation or warranty, express or implied, to investors in the Sub-Fund or other persons regarding the advisability of investing in Securities generally or in the Sub-Fund particularly. The Index Provider has no obligation to take the needs of the Manager or investors in the Sub-Fund into consideration

in determining, composing or calculating the Index. There is no assurance that the Index Provider will compile the Index accurately, or that the Index will be determined, composed or calculated accurately. In addition, the process and the basis of computing and compiling the Index and any of its related formulae, constituent companies and factors may at any time be changed or altered by the Index Provider without notice. Consequently there can be no guarantee that the actions of the Index Provider will not prejudice the interests of the Sub-Fund, the Manager or investors.

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

**Computation of the Index May Change Risk.** The ground rules constituting and governing the Index may change from time to time. When this occurs the weightings or composition of Securities owned by the Sub-Fund will change as considered appropriate by the Manager to achieve the investment objective. Thus, an investment in Units will generally reflect the Index as its constituents change and not necessarily the way it is comprised at the time of an investment in Units. However, there can be no guarantee that the Sub-Fund will, at any given time accurately reflect the composition of the Index (refer to the section on “Tracking Error Risk”).

**Index Provider and the Manager and Investment Adviser Are Not Independent of Each Other Risk.** The Index Provider of the Sub-Fund is FTSE, which calculates and reports the daily closing level of the Index (or designates parties to do so), whereas the Index was designed by VPI SL and VPI SL is responsible for undertaking the index screening review of the Index. The ultimate holding company of VPI SL is the holding company of the Investment Adviser and the Manager and so VPI SL, the Investment Adviser and the Manager are Connected Persons. The Manager and VPI SL also share resources. VPI SL is operationally independent of the Manager and the Investment Adviser. This may give rise to potential conflicts of interest.

Nonetheless, the Manager does not consider this will be a concern for the following reasons:

- (a) VPI SL’s operations and the Manager’s and Investment Adviser’s investment management operations are under the responsibility of different staff and management teams. These two operations report directly to different heads.
- (b) The Group has internal policies and procedures in place which ensure that effective “Chinese Walls” are created and maintained between different entities of the Group and their operations and which impose strict obligations of confidentiality on such entities’ staff. Information is disclosed between different operations within the same entity and between different entities of the Group on a “need to know” basis only.
- (c) The Group has IT firewall procedures in place restricting access to important systems and business information to authorised personnel. All of the Group’s staff is required to comply with the Group’s internal policies and procedures and the IT security standards of the Group.
- (d) As indicated in the section on “Index Methodology” above, the Index has clear methodology and rules which are well documented by which the Index is calculated.

In addition, all transactions (including those with VPI SL) carried out by or on behalf of the Sub-Fund by the Manager and the Investment Adviser will be on arm’s length terms. If and to the extent any conflict of interest with VPI SL arises, the Manager and the Investment Adviser will, at all times, have regard in such event to its obligations to the Sub-Fund and Unitholders and will endeavour to ensure such conflicts are resolved fairly and in accordance with applicable law and regulation.

## Regulatory Risks

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

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

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

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

**Valuation and Accounting Risk.** The Manager intends to adopt IFRS in drawing up the annual accounts of the Sub-Fund. However, the calculation of the Net Asset Value in the manner described under the section on "Determination of Net Asset Value" will not necessarily be in compliance with generally accepted accounting principles, that is, IFRS. Under IFRS, investments should be valued at fair value (bid and offer pricings are considered to be representative of fair value for listed investments) rather than last traded price. Accordingly, the Net Asset Value as described in this Prospectus will not necessarily be the same as the net asset value to be reported in the annual accounts as the Manager will make necessary adjustments in the annual accounts to comply with IFRS (although the Manager does not consider the differences between IFRS and the calculation of Net Asset Value are material). Any such adjustments will be disclosed in the annual accounts, including a reconciliation.

**Contagion Risk.** The Trust Deed allows the Trustee and the Manager to issue Units in separate sub-funds. The Trust Deed provides for the manner in which the liabilities are to be attributed across the various sub-funds under the Trust, including the Sub-Fund (liabilities are to be attributed to the specific sub-fund in respect of which the liability was incurred). A person to whom such a liability is owed has no direct recourse against the assets of the relevant sub-fund (in the absence of the Trustee granting that person a security interest). However, each of the Trustee and the Manager will have a right of reimbursement and indemnity out of the assets of the Trust as a whole or any part thereof, against any action, costs, claims, damages, expenses

or demands relating to the Trust as a whole, which may result in Unitholders of one sub-fund being compelled to bear the liabilities incurred in respect of other sub-funds in which such Unitholders do not themselves own units, if there are insufficient assets in that other sub-fund to satisfy the amount due to the Trustee and the Manager. Accordingly, there is a risk that liabilities of one sub-fund may not be limited to that particular sub-fund and may be required to be paid out of one or more other sub-funds.

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

**FATCA Related Risks.** Subject to the discussion regarding the IGA below, sections 1471 – 1474 (referred to as “FATCA”) of the U.S. Internal Revenue Code of 1986, as amended (“IRS Code”) impose rules with respect to certain payments to non-U.S. persons, such as each Sub-Fund, including interest and dividends from securities of U.S. issuers. All such payments (referred to as “withholdable payments”) may be subject to withholding at a 30% rate, unless the recipient of the payment satisfies certain requirements intended to enable the Internal Revenue Service (the “IRS”) to identify United States persons (within the meaning of the IRS Code) with interests in such payments. While such withholding would have applied also to payments of gross proceeds from the sale or other disposition on or after January 1, 2019 of property of a type which can produce U.S. source dividends and interest, recently proposed Treasury regulations eliminate such withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury regulations until final Treasury regulations are issued. To avoid such withholding on payments made to it, a foreign financial institution (an “FFI”), such as each Sub-Fund (and, generally, other investment funds organised outside the U.S.), generally will be required to enter into an agreement (an “FFI Agreement”) with the IRS, under which it will agree to identify its direct or indirect U.S. owners and report certain information concerning such U.S. owners to the IRS. The FFI Agreement will also generally require that an FFI withhold U.S. tax at a rate of 30% on certain payments to investors who fail to cooperate with certain information requests made by the FFI or on such payments made to investors that are FFIs that have not entered into an FFI Agreement with the IRS.

On 13 November 2014, Hong Kong has entered 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 each Sub-Fund) will be required to register with the US IRS and comply with the terms of FFI Agreement. Otherwise each Sub-Fund will be subject to a 30% withholding tax on relevant US-sourced payments it receives.

Under the IGA, FFIs in Hong Kong (such as each Sub-Fund) complying with the FFI Agreement (i) will generally not be subject to the above described 30% withholding tax on payments they receive; and (ii) will not be required to withhold tax on withholdable 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 is reported to the US IRS pursuant to the provisions of the IGA), but may be required to withhold tax on withholdable payments made to non-compliant FFIs. Withholding may be required with respect to withholdable payment to recalcitrant accounts if, pursuant to certain exchange of information provisions contained in the IGA, the IRS has not obtained information regarding such recalcitrant account holders within a time period specified in the IGA.

Each Sub-Fund will endeavour to satisfy the requirements imposed under FATCA, the IGA and the FFI Agreement to avoid any withholding tax. In particular, each Sub-Fund has been registered as a participating FFI (including a reporting Model 2 FFI). Value China A-Share ETF has been registered with the US IRS as a reporting Model 2 FFI with Global Intermediary Identification Number D21BCL.99999.SL.344. In the event that a Sub-Fund is not able to comply with the requirements imposed by FATCA, the IGA or the FFI Agreement and such Sub-Fund does suffer US withholding tax on its investments as a result of non-compliance, the Net Asset Value of such Sub-Fund may be adversely affected and such Sub-Fund may suffer significant loss as a result. In



addition, prospective investors should note that underlying collective investment schemes in which each Sub-Fund invests may be required to satisfy their own FATCA compliance obligations, and failure by any underlying collective investment scheme to fully comply with its FATCA obligations may have an adverse impact on the Net Asset Value of each Sub-Fund.

To the extent that a Sub-Fund suffers withholding tax on its investments as a result of FATCA, the Trustee on behalf of the Sub-Fund may, after completing due process to ascertain and confirm that the Unitholder has failed to cooperate and provide the required information, bring legal action against the relevant Unitholder for losses suffered by the relevant Sub-Fund as a result of such withholding tax.

As at the date of this Prospectus, all Units are registered in the name of HKSCC Nominees Limited. It is the Manager's understanding that HKSCC Nominees Limited has registered as a participating foreign financial institution under the Model 2 IGA.

Each prospective investor should consult with its own tax adviser as to the potential impact of FATCA in its own tax situation.

## MANAGEMENT OF THE TRUST

### The Manager

Value Partners Hong Kong Limited 惠理基金管理香港有限公司 (the “Manager”) is a wholly owned subsidiary of Value Partners Group Limited, a company listed on the SEHK. Both the Manager and the Investment Adviser are members of the Group. The Group has significant ETF experience – the Manager acts as sub-manager and the Investment Adviser as manager of Value China ETF and Value Gold ETF. The key personnel of the Manager have also managed a number of PRC focused SFC authorised unlisted funds, including 2 focusing on A-Shares namely China Convergence Fund and Chinese Mainland Focus Fund (since 2013).

The Manager was incorporated in Hong Kong with limited liability on 10 May 1999 and is licensed by the SFC for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance with CE number AFJ002.

The Manager has obtained RQFII status and is the RQFII Holder in respect of the Sub-Fund.

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

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

The Manager has sufficient human and technical resources and capability plus adequate infrastructure systems, operational processes, controls and procedures in place in order to ensure the smooth and efficient management and operation of the Sub-Fund, including cross border money flow, creation and redemptions, general operation of the Sub-Fund, cash management, procedures of handling corporate and other special events, portfolio composition file generation and checking, reference underlying portfolio value or estimated net asset value checking and monitoring and tracking error management.

### The Directors of the Manager

The Directors of the Manager are:

#### ***Dato’ Seri Cheah Cheng Hye***

Dato’ Seri Cheah Cheng Hye is Co-Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners Group Limited (“Value Partners”). He is in charge of Value Partners’ fund management and investment research, business operations, product development and corporate management. He sets Value Partners’ overall business and portfolio strategy.

Dato’ Seri Cheah has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm’s funds and business operation. He led Value Partners to a successful listing on the Main Board of The Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato’ Seri Cheah has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 200 professional awards and prizes since the firm’s inception in 1993.

Dato’ Seri Cheah currently serves as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited (“HKEX”), a member of The Hong Kong University of Science and

Technology (“HKUST”) Business School Advisory Council, as well as Co-Chairman of The Malaysian Chamber of Commerce (Hong Kong and Macau). He was previously a member of the Financial Services Development Council (“FSDC”) (from February 2015 to January 2019), and a member of the New Business Committee of FSDC (from 2013 to 2018). FSDC is a high-level, cross-sector advisory body established by the Hong Kong Special Administrative Region Government.

In August 2016, Dato’ Seri Cheah was conferred Darjah Gemilang Pangkuan Negeri (“DGPN”), one of the highest civil honours granted by the state of Penang in Malaysia to recognize exceptional individuals. The DGPN award comes with the title of “Dato’ Seri”. In 2013, he was conferred Darjah Setia Pangkuan Negeri (“DSPN”) with the title of “Dato’ ”. In the same year, he was named an Honorary Fellow of the HKUST for outstanding achievements.

Dato’ Seri Cheah was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark, and the co-winner of “CIO of the Year in Asia” along with Mr. Louis SO in the 2011 Best of the Best Awards by Asia Asset Management. In 2010, he was named by AsianInvestor as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by AsianInvestor as one of the 25 Most Influential People in Asian Asset Management. He was also named “Capital Markets Person of the Year” by FinanceAsia in 2007, and in 2003, he was voted the “Most Astute Investor” in the Asset Benchmark Survey.

Prior to starting Value Partners, Dato’ Seri Cheah worked at Morgan Grenfell Group in Hong Kong, where, in 1989, he founded the company’s Hong Kong/China equities research department as the Head of Research and proprietary trader for the firm. Prior to this, he was a financial journalist with the Asian Wall Street Journal and Far Eastern Economic Review, where he reported on business and financial news across East and Southeast Asia markets. Dato’ Seri Cheah served for nine years (1993 to 2002) as an independent non-executive director of Hong Kong-listed JCG Holdings, a leading microfinance company (a subsidiary of Public Bank Malaysia renamed from 2006 as Public Financial Holdings).

### ***So Chun Ki Louis***

Mr. Louis So is Co-Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners. He works closely with Dato’ Seri Cheah Cheng Hye on all aspects of providing leadership to Value Partners, including overseeing all group affairs and activities, daily operations and management of the firm’s investment management team. Mr. So holds a leadership role in Value Partners’ investment process, including a high degree of responsibility over portfolio management.

Mr. So has 20 years of experience in the financial industry, with a solid track record in research and portfolio management. He joined Value Partners in May 1999 and was promoted to take up various research and fund management roles since then. He was appointed Co-Chairman of Value Partners with effect from 26 April 2019. His extensive management capability and on-the-ground experience helped the group establish an unparalleled research and investment team.

Mr. So was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by Benchmark. In the 2011 Best of the Best Awards by Asia Asset Management, he was the co-winner of “CIO of the Year in Asia” award alongside Dato’ Seri Cheah Cheng Hye.

Mr. So graduated from the University of Auckland in New Zealand with a Bachelor’s degree in Commerce and obtained a Master’s degree in Commerce from the University of New South Wales in Australia.

### ***Ho Man Kei, Norman***

Mr. Norman Ho is a Senior Investment Director of Value Partners, where he is a leader in Value Partners’ investment process, with a high degree of responsibility over portfolio management. Mr. Ho is a member of the Board of Directors of Value Partners, and is also a director of certain subsidiaries of Value Partners.

Mr. Ho has extensive experience in the fund management and investment industry, with a focus on

research and portfolio management. Mr. HO joined Value Partners in November 1995. He was promoted to the roles of Investment Director and Senior Investment Director in 2010 and January 2014, respectively. Prior to joining Value Partners, he was an Executive with Dao Heng Securities Limited and had started his career with Ernst & Young.

Mr. Ho graduated with a Bachelor's degree in Social Sciences (majoring in Management Studies) from The University of Hong Kong. He is a CFA charterholder.

### **The Investment Adviser**

The Manager has appointed, under its own supervision and responsibility and at its own expense, Sensible Asset Management Hong Kong Limited 盛寶資產管理香港有限公司 (the "Investment Adviser") as its non-discretionary investment adviser in respect of the Sub-Fund.

The Investment Adviser manages the Value China ETF and the Value Gold ETF.

The Investment Adviser was incorporated in Hong Kong with limited liability on 28 April 2008 and is licensed by the SFC to conduct type 4 (advising on securities) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance with CE number ARE534.

### **The Directors of the Investment Adviser**

The Directors of the Investment Adviser are:

#### ***So Chun Ki Louis***

Please refer to the section on "The Directors of the Manager".

#### ***Au King Lun***

Dr Au King Lun is the President of Value Partners, responsible for the group's corporate affairs. He joined Value Partners in December 2016, bringing decades of asset management industry experience to his role.

Previously, Dr Au was CEO of Eastspring Investments (Hong Kong) Limited and BOCHK Asset Management Limited. He also held various senior management positions at other financial institutions including HSBC Global Asset Management (Hong Kong) Limited. Dr Au was named CEO of the Year in Hong Kong by Asia Asset Management in 2012 and 2014. He was awarded the Medal of Honour ("MH") by the Government of Hong Kong for his valuable contributions to the securities and asset management industry in 2008.

Currently, Dr Au is a lay member of the Council of the Hong Kong Institute of Certified Public Accountants, a member of the Board of Directors of the Financial Services Development Council, an Index Advisory Committee Member of the Shanghai Stock Exchange as well as the China Securities Index Co., Ltd. In addition, he sits on the board of the Urban Renewal Fund. Furthermore, he was the Chairman of the Hong Kong Securities and Investment Institute from 2006 to 2008 and the Chairman of the Hong Kong Investment Funds Association in 2004/2005.

Dr Au holds a CFA, and he earned a Bachelor's degree in Physics from the University of Oxford and a PhD in Theoretical Particle Physics from Durham University.

#### ***Cheung Kin Yan Kenny***

Mr. Kenny Cheung is a Portfolio Manager, Quantitative Investment Solutions of Value Partners, where he is responsible for portfolio management of the firm's exchanges traded funds, covering country-based equities ETF, and a physical gold ETF. He joined Value Partners in September 2015.

Prior to joining Value Partners, he was an assistant fund manager at Bosera Asset Management (International) where he managed ETFs on China A-Shares strategy. Prior to that, he was a

quantitative analyst at YinHua Fund Management, responsible for product development and operations for YinHua's first QDII product. Before that, he was an assistant investment manager at Hang Seng Investment Management where he managed portfolios including index-tracking unit trusts, leverage funds and ETFs.

Mr. Cheung graduated with a Master's degree in Mathematics (Financial Mathematics and Statistics) from The Hong Kong University of Science and Technology, and a Bachelor's degree in Business Administration from the City University of Hong Kong.

### **The Trustee and Registrar**

The Trustee of the Trust is HSBC Institutional Trust Services (Asia) Limited. HSBC Institutional Trust Services (Asia) Limited 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 (Cap. 29) 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 (Cap. 485) of Hong Kong. HSBC Institutional Trust Services (Asia) Limited is an indirectly wholly owned subsidiary of HSBC Holdings plc, a public company incorporated in England and Wales.

Under the Trust Deed, the Trustee shall take into its custody or under its control all the property forming part of the assets of the Trust and hold it in trust for the Unitholders in accordance with the provisions of the Trust Deed and, to the extent permitted by applicable laws and regulation, all cash and registrable assets from time to time comprised in the Trust shall be registered in the name of or held to the order of the Trustee. The Trustee is responsible and shall remain at all times liable for the safe keeping of the investments, assets and other property forming part of the Trust in accordance with the provisions of the Trust Deed and such investments, assets and other property shall be dealt with as the Trustee may think proper for the purpose of providing for the safe keeping thereof, subject to the provisions of the Trust Deed. The Trustee shall in respect of any investments, assets and other property of the Trust which by nature cannot be held in custody, maintain a proper record of such investments, assets or property in its books under the name of the Sub-Fund.

The Trustee may from time to time appoint such person or persons as it thinks fit (including, without limitation, itself or any Connected Person) as custodian or co-custodian of the investments 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, co-custodian and sub-custodian a "Correspondent").

The Trustee is required to (a) exercise reasonable care, skill and diligence in the selection, appointment and ongoing monitoring of Correspondents which are appointed for the custody and/or safekeeping of any of the investments, cash, assets or other property comprised in the Sub-Fund 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. The Trustee shall be liable 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 Custodian is The Hongkong and Shanghai Banking Corporation Limited and the PRC Custodian is HSBC Bank (China) Company Limited (please see below).

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 depositary 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 and 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 breach of trust through fraud or negligence on the part of the Trustee or any of its officers, employees, agents or delegates, be liable for any losses, costs or damage to the Trust, the Sub-Fund or any Unitholder. Please also refer to "Indemnities of the Trustee and the Manager".

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 of the US Department of the Treasury (the "OFAC"). 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 under the section on "Fees and Expenses Payable by the Sub-Fund" and to be reimbursed for all costs and expenses in accordance with the provisions of the Trust Deed.

The Manager has sole responsibility for making investment decisions in relation to the Trust and/or the Sub-Fund and the Trustee (including its delegate) is not responsible and has no liability for any investment decision made by the Manager. Except as 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 section on "The Trustee and Registrar".

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

- (a) the Trustee takes into its custody or under its control the assets of the Sub-Fund, including onshore PRC assets which will be maintained by the PRC Custodian in electronic form via a securities account with the CSDCC and any assets deposited in a special deposit 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 with the CSDCC 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 by the Manager and the Trustee to act as the Custodian. The Custodian will be responsible for the safe custody of the assets of the Sub-Fund managed by the Manager and acquired through or in connection with the Manager's RQFII status in accordance with the PRC Custodian Agreement. According to the PRC Custodian Agreement, the Custodian is entitled to utilise its local subsidiary or its associates within the HSBC group of companies, and the Trustee, the Custodian and the Manager have appointed the PRC Custodian (i.e. HSBC Bank (China) Company Limited) as the Custodian's delegate for the performance of services under the PRC Custodian Agreement. The Custodian will act through 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 Dealer, the Service Agent and HKSCC. The Service Agent performs, through HKSCC, certain of its services in connection with the creation and redemption of Units by Participating Dealers.

### **The Auditors**

The Manager has appointed Ernst & Young to act as the auditors of the Trust and the Sub-Fund. The auditors are independent of the Manager and the Trustee.

### **The Participating Dealer**

A Participating Dealer may act for its own account or for your account as its clients in making cash Creation Applications and cash Redemption Applications. The latest list of the Participating Dealers is available at <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC).

### **The Market Makers**

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

Subject to applicable regulatory requirements, the Manager will use its best endeavours to put in place arrangements so that there is at all times at least one Market Maker for Units traded in RMB and one Market Maker for Units traded in HKD and that at least one Market Maker is required to give not less than 3 months' notice prior to terminating market making under the relevant market making agreement. If the SEHK withdraws its permit to the existing Market Maker(s), the Manager will endeavour to ensure that there is at least one other Market Maker to facilitate the efficient trading of Units in RMB and one other Market Maker to facilitate the efficient trading of Units in Hong Kong dollars. The Manager will seek to ensure that at least one Market Maker per counter is required to give not less than 3 months' prior notice to terminate market making under the relevant market making agreement. The latest list of Market Makers is available at [www.hkex.com.hk](http://www.hkex.com.hk) and <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (both websites 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.

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

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

In addition:

- (a) The Manager or any of its Connected Persons may purchase and sell investments for the account of the Sub-Fund as agent for the Trustee.
- (b) The Trustee, the Manager and any of their respective Connected Persons may contract with or enter into any financial, banking or other transaction with one another or with any Unitholder of the Sub-Fund or any company or body any of whose shares or securities form part of the Sub-Fund's assets or may be interested in any such contract or transaction.
- (c) The Trustee, the Manager or any of their respective Connected Persons may become the owner of Units and hold, dispose or otherwise deal with them with the same rights which it would have had if it had not been the Trustee, the Manager or any of their respective Connected Persons.
- (d) The Trustee, the Manager and any of their respective Connected Persons may buy, hold and deal in any securities, commodities or other property for their own account or for the account of their other customers notwithstanding that similar securities, commodities or other property may be held as part of the Sub-Fund.
- (e) If cash forming part of the Sub-Fund's assets is deposited with the Trustee, the Manager, the Investment Adviser, any investment delegate or any of their respective Connected Persons (being an institution licensed to accept deposits), such cash deposit shall be maintained in a manner that is in the best interests of the Unitholders of the Sub-Fund, having regard to the prevailing commercial rate for a deposit of similar type, size and term negotiated at arm's length in accordance with ordinary and normal course of business.
- (f) Any arrangements for the borrowing of any monies for the account of the Sub-Fund may be made with any of the Trustee, the Manager, the Investment Adviser, any investment delegate or any of their respective Connected Persons being a banker or other financial institution provided that such person shall charge interest at no higher rate and any fee for arranging or terminating the loan is of no greater amount than is in accordance with its normal banking practice, the commercial rate for a loan of a similar size, nature and duration, in the same currency and with institutions of similar standing negotiated at arm's length.
- (g) Subject to restrictions and requirements applicable from time to time, the Manager, any investment delegate or any of their respective Connected Persons may enter into investments for the Sub-Fund as agent for the Sub-Fund and may deal with the Sub-Fund as principal provided that, in both cases, dealings are carried out in good faith and effected on best available terms negotiated on an arm's length basis and in the best interests of the Unitholders of the Sub-Fund. Any transactions between the Sub-Fund and the Manager, any investment delegate as may be appointed by the Manager or any of their respective Connected Persons as principal may only be made with the prior written consent of the Trustee. All such transactions must be disclosed in the Sub-Fund's annual report.
- (h) For so long as the Sub-Fund is authorised by the SFC and it is an applicable requirement of the Code, the Manager, if transacting with brokers or dealers connected to the Manager, the Investment Adviser, any investment delegate, the Trustee or any of their respective Connected Persons, the Manager must ensure that:
  - (i) such transactions are on an arm's length terms;



- (ii) the Manager has used due care in the selection of such persons and has ensured that they are suitably qualified in the circumstances;
  - (iii) transaction execution is consistent with applicable best execution standards;
  - (iv) the fee or commission paid to any such persons in respect of a transaction is not greater than that which is payable at the prevailing market rate for a transaction of that size and nature;
  - (v) the Manager must monitor such transactions to ensure compliance with its obligations; and
  - (vi) the nature of such transactions and the total commissions and other quantifiable benefits received by such persons shall be disclosed in the Sub-Fund's annual reports.
- (i) Neither the Trustee nor the Manager nor any of their respective Connected Persons shall be liable to account to each other or to the Sub-Fund or to the Unitholders for any profits or benefits made or derived from or in connection with any such transaction mentioned above.

It is, therefore, possible that any of the Trustee, the Manager, the investment delegates (if any) or any of their respective Connected Persons may, in the course of business, have potential conflicts of interest with the Sub-Fund. The Manager will take all reasonable steps to identify, prevent, manage and monitor any actual or potential conflicts of interest including conducting all transactions in good faith at arm's length and in the best interests of the Sub-Fund on normal commercial terms. If such conflicts arise, each of the Trustee and the Manager will, at all times, act in accordance with the terms of the Trust Deed and have regard in such event to its obligations to the Sub-Fund and the Unitholders and will endeavour to ensure that such conflicts are resolved fairly and all transactions between the Sub-Fund and any of them are on an arm's length basis.

Subject to applicable rules and regulations, the Manager, the Investment Adviser, their delegates or any of their respective Connected Persons may enter into portfolio transactions for or with the Sub-Fund as agent in accordance with normal market practice, provided that commissions charged to the Sub-Fund in these circumstances do not exceed customary full service brokerage rates. If a broker does not provide research or other lawful services in addition to brokerage execution, such broker will generally charge a brokerage commission that is discounted from customary full service brokerage rates.

Where the Sub-Fund invests in shares or units of a collective investment scheme managed by the Manager, the Investment Adviser, the investment delegates (if any) or any of their respective Connected Persons, the manager of the scheme in which the investment is being made by the Sub-Fund must waive any preliminary or initial charges and redemption charges which it is entitled to charge for its own account in relation to the acquisition or redemption (as the case may be) of shares or units and there must be no increase in the overall total of annual management fees (or other costs and charges payable to the Manager or any Connected Person of the Manager) borne by the Sub-Fund.

None of the Manager, the Investment Adviser, the investment delegates (if any) nor any of their respective Connected Persons shall retain any cash or rebates or other payment or benefit (except as otherwise provided for in this Prospectus or in the Trust Deed) received from a third party (either directly or indirectly) in consideration of directing transactions in the Sub-Fund's assets to such persons, and any such rebates or payments or benefits which are received shall be credited to the account of the Sub-Fund.

Subject to paragraphs (h)(i) - (vi) above, the Manager, the investment delegates (if any) and/or any of their respective Connected Persons reserves the right to effect transactions by or through a broker or dealer with whom the Manager, the investment delegates (if any) and/or any of their respective Connected Persons has an arrangement under which that broker or dealer with from time to time provide to or procure for the Manager, the investment delegates (if any) and/or any of their respective Connected Persons goods or services for which no direct payment is made but

instead the Manager, the investment delegates (if any) and/or any of their respective Connected Persons undertakes to place business with that broker or dealer. The Manager shall procure that no such arrangements are entered into unless (i) the goods and services to be provided pursuant thereto are of demonstrable benefit to the unitholders of the Sub-Fund (taken as a body and in their capacity as such) whether by assisting the Manager and/or the investment delegate (if any) in their ability to manage the Sub-Fund or otherwise; (ii) the transaction execution is consistent with best execution standards and brokerage rates are not in excess of customary institutional full-service brokerage rates; (iii) periodic disclosure is made in the annual report of the Sub-Fund in the form of a statement describing the soft dollar policies and practices of the Manager or the investment delegates (if any), including a description of goods and services received by them; and (iv) the availability of soft dollar arrangements is not the sole or primary purpose to perform or arrange transaction with such broker or dealer. Such goods and services may include research and advisory services, economic and political analysis, portfolio analysis including valuation and performance measurement, market analysis, data and quotation services, computer hardware and software incidental to the above goods and services, clearing and custodian services and investment-related publications. For the avoidance of doubt, such goods and services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payments.

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

## **STATUTORY AND GENERAL INFORMATION**

### **Reports and Accounts**

The financial year-end of the Trust and the Sub-Fund is 31 March every year. 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. Unaudited interim financial reports are also to be prepared up to the last Dealing Day in September of each year and published on the Manager's website within 2 months of such date. Once these reports are made available on the Manager's website, investors will be notified within the relevant timeframe.

Both English and Chinese versions of the annual financial reports and the unaudited interim financial reports of the Sub-Fund will be available, printed copies of which 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 for breach of trust or any liability 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' expense.

### **Modification of Trust Deed**

The Trustee and the Manager may agree to modify the Trust Deed by supplemental deed provided that in the opinion of the Trustee and the Manager such modification (i) does not materially prejudice the interests of Unitholders, does not operate to release to any material extent the Trustee, the Manager or any other person from any liability or 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 Trust or (ii) is necessary in order to make possible compliance with any fiscal, statutory, regulatory or official requirement (whether or not having the force of law) or (iii) is made to correct a manifest error. In all other cases involving any material changes, no modifications, alterations and additions may be made without the approval of the SFC (where such SFC approval is required) or the sanction of an extraordinary resolution of the Unitholders affected. Notice of any amendment or modification in respect of which the Trustee and the Manager shall have certified in accordance with the aforesaid will be given by the Trustee (or the Trustee will procure that notice be given by the Manager) unless such

amendment or modification is not in the opinion of the Trustee of material significance or is made to correct a manifest error.

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.

### **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.

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

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

The Manager may, in its absolute discretion, by notice in writing to the Trustee, terminate the Sub-Fund if: (i) after one year from the date of establishment of the Sub-Fund, the aggregate Net Asset

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

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

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. In the event of a termination, any unclaimed proceeds or other monies held by the Trustee may at the expiration of twelve months from the date upon which the same became payable be paid into court subject to the right of the Trustee to deduct from such unclaimed proceeds any expenses it may incur in making such payment.

### **Distribution Policy**

Income may be distributed at the Manager's discretion to Unitholders at least semi-annually (usually in March and September). 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). 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. Accordingly although it is the Manager's intention to make distributions, there can be no assurance that the Manager will pay distributions for the Sub-Fund.

The Manager may in its discretion make cash distributions to Unitholders out of capital or out of gross income (while charging/paying all or part of the Sub-Fund's fees and expenses to/out of the capital of the Sub-Fund) resulting in an increase in distributable income for the payment of distributions which is in effect a payment of distributions out of capital.

Payment of distributions 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 out of or effectively out of the Sub-Fund's capital may result in an immediate reduction of the Net Asset Value per Unit.

The composition of distributions payable on Units (i.e. the relative amounts of distributions paid and the percentages of dividends out of (i) net distributable income and (ii) capital), if any, for the last 12 months are available from the Manager on request and are also published on the Manager's website <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC). The Manager may amend the Sub-Fund's distribution policy with respect to the distributions out of capital or effectively out of capital of the Sub-Fund subject to the SFC's prior approval and by giving not less than one month's prior notice to Unitholders.

## **Inspection of Documents**

Copies of the following documents are available for inspection free of charge at the offices of the Manager and copies thereof may be obtained from the Manager in the case of (f) free of charge and in the case of (a) to (e) at a cost of RMB150 per set of copy documents:

- (a) Trust Deed;
- (b) PRC Participation Agreement;
- (c) PRC Custodian Agreement;
- (d) Service Agreements;
- (e) Participation Agreements; and
- (f) The most recent annual financial report of the Trust and the Sub-Fund (if any) and the most recent unaudited interim financial report of the Trust and the Sub-Fund (if any).

## **Part XV of the Securities and Futures Ordinance**

Part XV of the Securities and Futures Ordinance 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.

## **Automatic Exchange of Financial Account Information**

The Inland Revenue (Amendment) (No.3) Ordinance (the "Ordinance") came into force on 30 June 2016. This is the legislative framework for the implementation in Hong Kong of the Standard for Automatic Exchange of Financial Account Information (commonly known as "CRS"). The CRS requires financial institutions ("FIs") in Hong Kong to collect information relating to account holders, and file such information as it relates to reportable account holders who are tax resident in Reportable Jurisdictions (as defined below) with the Hong Kong Inland Revenue Department ("IRD") who in turn will exchange the information with the jurisdiction(s) in which that account holder is resident. Generally, tax information will be exchanged only with jurisdictions with which Hong Kong has activated exchange relationships ("Reportable Jurisdictions"); however, the Sub-Fund and/or its agents may further collect information relating to residents of other jurisdictions.

The Sub-Fund is required to comply with the requirements of the Ordinance, which means that the Sub-Fund 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 requires the Sub-Fund to, amongst other things: (i) register the 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 Reportable Jurisdiction(s). Broadly, CRS 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 a Reportable Jurisdiction. Under the Ordinance, details of Unitholders, including but not limited to their name, place of birth, address, jurisdiction of tax residence, tax identification number (if any), account details, account balance/value, and income or sale or redemption proceeds, may be reported to the IRD and subsequently exchanged with government authorities in the relevant Reportable Jurisdiction(s).

By investing in the Sub-Fund and/or continuing to invest in the Sub-Fund, Unitholders acknowledge that they may be required to provide additional information to the Sub-Fund, the Manager and/or the Sub-Fund's agents in order for the Sub-Fund to comply with the Ordinance. The Unitholder's

information (and information on controlling persons including beneficial owners, beneficiaries, direct or indirect shareholders or other persons associated with such Unitholders that are not natural persons), may be communicated by the IRD to authorities in other jurisdictions.

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

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

Each investor (i) shall 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 Sub-Fund (a) to avoid 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 Sub-Fund receives payments and/or (b) to satisfy due diligence, reporting or other obligations under the 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 or when such form, certificate or other information is no longer accurate, and (iii) will otherwise comply with any registration, due diligence and reporting obligations imposed by the United States, Hong Kong or any other jurisdiction (including but not limited to any law, rule and requirement relating to AEOI), including such obligations that may be imposed by future legislation.

For the purposes herein, “AEOI” means one or more of the following as the context requires:

- (a) FATCA;
- (b) the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters – the Common Reporting Standards and any associated guidance;
- (c) any intergovernmental agreement, treaty, guidance, standard or other agreement between the Hong Kong government (or any government body in Hong Kong) and any other jurisdiction (including any government bodies in such jurisdiction), entered into in order to comply with, facilitate, supplement or implement the legislation, regulations, guidance or standards described in paragraphs (a) and (b) above; and
- (d) any legislation, regulations or guidance in Hong Kong that give effect to the matters outlined in the preceding paragraphs (a) to (c) above.

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

Subject to applicable laws and regulations in Hong Kong, the Manager, the Trustee or any of their authorised person (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 IRS and the IRD), certain information in relation to a Unitholder, including but not limited to the Unitholder's name, address, jurisdiction of birth, tax residence, tax identification number (if any), social security number (if any) and certain information relating to the Unitholder's holdings, account balance/value, and income or sale or redemption proceeds, to enable the 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 (including any law, rule and requirement relating to AEOI), regulation or agreement under FATCA).

### **Personal Data**

Pursuant to the provisions of the Personal Data (Privacy) Ordinance (Cap. 468 of the Laws of Hong Kong) (the “PDPO”), the Trustee, the Manager, or any of their respective delegates (each a “Data User”) may collect, hold and use personal data of individual investors in the relevant Sub-Fund only for the purposes for which such data was collected and shall comply with personal data protection

principles and requirements as set out in the PDPO and all other applicable regulations and rules governing personal data use in Hong Kong from time to time. Accordingly, each Data User shall take all practicable steps to ensure that personal data collected, held and processed by them are protected against unauthorised or accidental access, processing, erasure or other use.

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

As part of the Manager's, the Trustee's, the Registrar'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 Sub-Fund will facilitate compliance with the Sub-Fund's obligation to meet redemption requests. Such policy, combined with the liquidity management tools of the Manager, also seeks to achieve fair treatment of Unitholders and safeguard the interests of remaining Unitholders in case of sizeable redemptions.

The Manager's liquidity policy takes into account the investment strategy, the liquidity profile, the redemption policy, the dealing frequency, the ability to enforce redemption limitations and the fair valuation policies of 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 section on "CREATIONS AND REDEMPTIONS (PRIMARY MARKET)", 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 all classes of the Sub-Fund redeemed on any Dealing Day to Units representing 10% of the total Net Asset Value of the Sub-Fund on the relevant Dealing Day (subject to the conditions under the heading entitled "Deferred Redemption" in the section on "CREATIONS AND REDEMPTIONS (PRIMARY MARKET)").

### **Index Licence Agreement**

The Manager has been granted a non-exclusive, non transferable licence pursuant to index licence agreement dated 23 September 2009 (as amended by a variation agreement dated 1 December 2010 and a second variation agreement dated 1 June 2011) entered into with the Index Provider (the "Licence Agreement"), to use the Index in connection with the issue, operation, marketing, promotion and distribution of the Sub-Fund.

The Licence Agreement had an initial term of 2 years and thereafter has additional one year term periods until terminated by either party under the circumstances listed below:



- (a) The Index Provider may terminate the Licence Agreement forthwith if:
  - (i) the Manager is convicted of any offence relating to the Sub-Fund or to the trading or issue of the Units;
  - (ii) the Manager is found to be in material breach of any applicable laws, regulations or rules; or
  - (iii) there is a change of control impacting on or in relation to the Manager.
- (b) The Manager may terminate the Licence Agreement if:
  - (i) a notice to increase charges is received from the Index Provider (the termination effective the date of the increase); or
  - (ii) on 3 months' written notice to the Index Provider legislation or regulations or interpretations are adopted where in the Manager's reasonable judgement, its ability to market and/or to promote, amongst others, the Sub-Fund in Hong Kong is materially impaired.
- (c) Either party may terminate the Licence Agreement if:
  - (i) the other party breaches any term of the Licence Agreement and it is not possible to remedy the breach;
  - (ii) the other party commits any material breach of its obligations and fails to remedy the breach within 15 working days of receipt of written notice requiring the same;
  - (iii) the other party suffers from an "insolvency event" (as defined in the Licence Agreement);
  - (iv) at least 6 months' prior written notice is given to the other party (such notice to expire at the end of the relevant term); or
  - (v) the Index Provider ceases to calculate and publish the Index and either (A) does not make available a replacement index or (B) does make available a replacement index but the Manager elects not to use such index.

### **Material Changes to the Index**

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

### **Replacement of Index**

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

- (a) the Index ceasing to exist;
- (b) the licence to use the Index being terminated;
- (c) a new index becoming available that supersedes the existing Index;
- (d) a new index becoming available that is regarded as the market standard for investors in the

particular market and/or would be regarded as more beneficial to the Unitholders than the existing Index;

- (e) investing in the Securities comprised within the Index becomes difficult;
- (f) the Index Provider increasing its licence fees to a level considered too high by the Manager;
- (g) the quality (including accuracy and availability of the data) of the Index having in the opinion of the Manager, deteriorated;
- (h) a significant modification of the formula or calculation method of the Index rendering that index unacceptable in the opinion of the Manager; and
- (i) the instruments and techniques used for efficient portfolio management not being available.

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

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

The Manager will publish important news and information with respect to the Sub-Fund (including in respect of the Index), both in the English and in the Chinese languages, on the Manager's website at <https://www.valueETF.com.hk/eng/value-china-a-share-etf.html> (this website has not been reviewed by the SFC) including:

- (a) this Prospectus and the Product Key Facts Statement in respect of the Sub-Fund (as revised from time to time);
- (b) the latest annual and interim financial reports;
- (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 the 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 throughout each Dealing Day in RMB and in HKD updated every 15 seconds throughout each Dealing Day;
- (f) the last Net Asset Value of the Sub-Fund in RMB only and the last Net Asset Value of 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 constituents of the Index and the level of the Index;
- (j) the composition of dividends (i.e. the relative amounts paid out of (i) net distributable income and (ii) capital), if any, for a rolling 12-month period; and
- (k) the latest list of the Participating Dealers and Market Makers.

The near real time indicative Net Asset Value per Unit in HKD, under (e) above, is indicative and for reference only. This is updated during SEHK trading hours and is calculated by ICE Data Indices, LLC or other third party interactive data vendor using the near real time indicative Net Asset Value per Unit in RMB multiplied by a near real time HKD:RMB foreign exchange rate for offshore RMB (CNH) quoted by ICE Data Indices, LLC or other third party interactive data vendor.

Since the estimated Net Asset Value per Unit in RMB will not be updated when the underlying A-Shares market is closed, the change in the estimated Net Asset Value per Unit in HKD (if any) during such period is solely due to the change in the near real time foreign exchange rate.

The last Net Asset Value per Unit in HKD, under (f) above, is indicative and for reference only and is calculated by the Trustee using the official last Net Asset Value per Unit in RMB multiplied by an assumed foreign exchange rate (i.e. not a real time exchange rate) being the exchange rate quoted by Thomson Reuters or other third party interactive data vendor for offshore RMB (CNH) at 3:00 p.m. (Hong Kong time) as of the same Dealing Day. Similarly, the last Net Asset Value per Unit in RMB and the last Net Asset Value per Unit in HKD will remain unchanged during the period when the A-Share market is closed for normal trading.

Real-time updates about the Index can be obtained through other financial data vendors. It is your own responsibility to obtain additional and the latest updated information about the Index (including without limitation, a description of the way in which the Index is calculated, any change in the composition of the Index, any change in the method for compiling and calculating the Index) via the website <https://www.ftserussell.com/products/indices/value-stocks> (this website has 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**

Value Partners Hong Kong Limited  
惠理基金管理香港有限公司  
43/F The Center  
99 Queen's Road 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, the Investment Adviser, 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, the Investment Adviser 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 and the Investment Adviser, their respective websites <https://www.valueETF.com.hk> and <http://www.valuepartners-group.com> (both websites 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.

## TAXATION

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

### Hong Kong Taxation

#### The Trust and Sub-Fund

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

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

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

The sale or purchase of Hong Kong stocks by the Sub-Fund will be subject to stamp duty in Hong Kong at the current rate of 0.1% of the price of the shares being sold or purchased. The Sub-Fund will usually be liable to one half of such Hong Kong stamp duty.

#### The Unitholders

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

**Stamp Duty:** Pursuant to the Stamp Duty (Amendment) Ordinance 2015, effective 13 February 2015, stamp duty payable in respect of any transfer 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 do not attract stamp duty and no stamp duty is payable by Unitholders on any transfer.

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

## **PRC Taxation**

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

The PRC government has implemented a number of tax reform policies in recent years. The current tax laws and regulations may be revised or amended in the future. Any revision or amendment in tax laws and regulations may affect the after-taxation profit of PRC companies and foreign investors in such companies.

### Corporate Income Tax ("CIT")

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

If the Sub-Fund is considered as a non-tax resident enterprise without an E&P in the PRC, it will be subject to CIT on a withholding basis ("WIT"), generally at a rate of 10%, to the extent it directly derives the PRC sourced passive income, unless a specific exemption or reduction is available under current PRC tax laws and regulations or relevant tax treaties.

The Manager intends to manage and operate the Sub-Fund in such a manner that the Sub-Fund should not be treated as tax resident enterprise of the PRC or non-tax resident enterprises with E&P in the PRC for CIT purposes, although this cannot be guaranteed. As such, it is expected that the Sub-Fund should not be subject to CIT on an assessment basis and would only be subject to WIT to the extent that the Sub-Fund directly derives PRC sourced income in respect of its investments in PRC Securities.

### Interest / dividend

The Sub-Fund's income from interests, dividends and profit distributions from PRC tax enterprise received by the Sub-Fund is generally subject to PRC WIT at a rate of 10%, unless such WIT is subject to reduction or exemption in accordance with PRC tax laws and regulations or an applicable tax treaty signed with the PRC.

In respect of interests, under the PRC CIT Law and regulations, interest derived from government bonds issued by the State Council's finance departments and/or local government bonds approved by the State Council is exempt from PRC income tax.

Further, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (the "Mainland China-HK Arrangement"), if a Hong Kong tax resident receives interest income from PRC tax resident enterprises, 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 Mainland China-HK Arrangement and other relevant conditions are satisfied, subject to the agreement from the PRC tax authorities. In practice, due to the practical difficulties in demonstrating that an investment fund is the beneficial owner of the interest income received, such investment fund is generally not entitled to the reduced WIT rate of 7%. In general, the prevailing rate of 10% should be applicable to the Sub-Fund.

In respect of dividends, under the Mainland China-HK Arrangement, dividends distributed by a PRC tax resident to a Hong Kong tax resident would be subject to a reduced PRC WIT rate of 5% provided (i) the Hong Kong tax resident is the beneficial owner of the dividend; (ii) the Hong Kong tax resident holds at least 25% of the equity of the PRC tax resident; and (iii) the relevant treaty conditions are satisfied. Due to the Sub-Fund's investment restriction, the Sub-Fund would not hold more than 10% of the ordinary shares issued by any single PRC issuer. In this connection, the Sub-Fund would not be able to enjoy the reduced WIT rate of 5% provided under the Mainland China-HK Arrangement.

## Capital gains

### (i) Capital gains realised from trading of A-Shares through Stock Connect

PRC tax circulars Caishui [2014] No. 81 ("Notice No. 81") and Caishui [2016] No. 127 ("Notice No. 127") provide that PRC CIT will be temporarily exempted on capital gains derived by Hong Kong and overseas investors (including the Sub-Fund) on the trading of A-Shares through the Stock Connect. Based on Notice No. 81 and Notice No. 127, and having consulted professional and independent tax adviser, no WIT provision for gross realised or unrealised capital gains derived from trading of A Shares via the Stock Connect is made by the Manager on behalf of the Sub-Fund.

It should be noted that the corporate income tax exemption under Notice No. 81 and Notice No. 127 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

### (ii) Capital gains realised through trading of A-Shares through RQFII

The Sub-Fund may from time to time obtain exposure to A-Shares via the Manager's RQFII status.

Pursuant to the "Notice on the temporary exemption of Corporate Income Tax on capital gains realised from the transfer of PRC equity investment assets such as PRC domestic stocks by QFII and RQFII" (Caishui [2014] No. 79) ("Notice No. 79") promulgated by the MOF, the SAT and the CSRC on 14 November 2014 states that (i) PRC CIT will be imposed on capital gains realised by QFIIs and RQFIIs from the transfer of PRC equity investment assets (including PRC domestic stocks) prior to 17 November 2014 in accordance with laws; and (ii) QFIIs and RQFIIs (without an E&P in the PRC or having an establishment in the PRC but the income so derived in China is not effectively connected with such establishment) will be temporarily exempt from PRC CIT on gains realised from the transfer of PRC equity investment assets (including A-Shares) effective from 17 November 2014.

Pursuant to Notice No. 79 and having consulted professional and independent tax adviser, with effect from 17 November 2014, in respect of each Sub-Fund, no WIT provision for gross realised or unrealised capital gains derived from trading of A-Shares via RQFII regime.

Please note that the tax exemption granted under Notice No. 79 is temporary. As such, as and when the PRC authorities announce the expiry date of the exemption, the Sub-Fund may in future need to make provision to reflect taxes payable, which may have a substantial negative impact on the Net Asset Value.

### (iii) Tax Provision

It should be noted that the existing tax laws, regulations and practices may be revised or amended in the future, with the possibility that such changes will be applied with retrospective effect. In order to meet any potential tax liability for capital gains or income, 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.

As such, if it transpires that the Sub-Fund is subject to actual tax liabilities, in respect of which the Manager had not made any provision, investors should note that the Net Asset Value of the Sub-Fund may be lowered, as the Sub-Fund will ultimately have to bear the full amount of tax liabilities. It should also be noted that the level of provision (if any) may be inadequate or excessive to meet actual PRC tax liabilities on investments made by the relevant Sub-Fund. Consequently, Unitholders may be disadvantaged or advantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units. If the actual tax levied by the SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount (or if the Manager did not make any tax provision), investors should note that the Net Asset Value of the relevant Sub-Fund may be adversely affected, as the relevant Sub-Fund will ultimately have to bear the full amount of tax liabilities. In this case, the additional tax liabilities will only impact Units in issue at the relevant time, and the then existing Unitholders and subsequent Unitholders will be disadvantaged as such Unitholders will bear, through the relevant Sub-Fund, a

disproportionately higher amount of tax liabilities as compared to that borne by persons who have already redeemed their Units in the relevant Sub-Fund. On the other hand, the actual tax liabilities may be lower than the tax provision made. In that case, those persons who have already redeemed their Units before the actual tax liabilities are determined will not be entitled or have any right to claim any part of such overprovision and as such may be disadvantaged.

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

The MOF and SAT issued the "Notice on the Comprehensive Roll-out of the B2V Transformation Pilot Program ("B2V Pilot Program")" (Caishui [2016] No. 36) ("Notice No. 36") on 23 March 2016. The Notice No. 36 sets out that the B2V Pilot Program covers all the remaining industries of the program, including financial services. The Notice No. 36 has taken effect from 1 May 2016, unless otherwise stipulated therein.

The Notice No. 36 provides that VAT at 6% shall be levied on the difference between the selling and buying prices of those marketable securities, e.g. A-Shares and RMB denominated debt securities issued by PRC issuers.

Based on the prevailing VAT regulations, capital gains derived by (i) QFII / RQFII on trading of marketable securities and (ii) foreign investors via the Stock Connect are exempted from VAT. Therefore, to the extent that the Sub-Fund's key investments (such as A-Shares through the RQFII regime or the Stock Connect) are conducted through these channels, the capital gains should be exempted from VAT. In addition, deposit interest income and interest received from government bonds and local government bonds are also exempt from VAT.

The prevailing VAT regulations do not specifically exempt VAT on interest received by foreign investors (including QFII and RQFII). Interest income on non-government bonds (including corporate bonds) should technically be subject to 6% VAT.

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

In addition, urban maintenance and construction tax (currently at the rate ranging from 1% to 7%), educational surcharge (currently at the rate of 3%) and local educational surcharge (currently at the rate of 2%) are imposed based on the VAT liabilities. The applicable levies depend on the location where VAT filing (if required) is done.

#### Stamp Duty

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

No PRC Stamp Duty is expected to be imposed on non-tax resident holders of government and corporate bonds, either upon issuance or upon a subsequent transfer of such bonds.

Further, no PRC Stamp Duty is expected to be imposed on non-tax resident holders of fund units, either upon subscription or upon a subsequent redemption of such fund units.

#### General

It should also be noted that the actual applicable tax rates imposed by the SAT may change from time to time. It should also be noted that the prevailing PRC tax regulations specified that the tax exemption on capital gains derived from the trading of A-Shares from 17 November 2014 onwards is temporary. There is a possibility of the PRC tax rules, regulations and practice being changed and taxes being applied retrospectively. As such, any provision for taxation made by the Manager may be excessive or inadequate to meet final PRC tax liabilities. Consequently, Unitholders may be advantaged or disadvantaged depending upon the final tax liabilities, the level of provision and when they subscribed and/or redeemed their Units.

If the actual applicable tax rate levied by SAT is higher than that provided for by the Manager so that there is a shortfall in the tax provision amount, investors should note that the Net Asset Value of the Sub-Fund may suffer more than the tax provision amount as the Sub-Fund will ultimately have to bear the additional tax liabilities. In this case, the then existing and new Unitholders will be disadvantaged. On the other hand, if the actual applicable tax rate levied by SAT is lower than that provided for by the Manager so that there is an excess in the tax provision amount, Unitholders who have redeemed their Units before SAT's ruling, decision or guidance in this respect will be disadvantaged as they would have borne the loss from the Manager's overprovision. In this case, the then existing and new Unitholders may benefit if the difference between the tax provision and the actual taxation liability under that lower tax rate can be returned to the account of the Sub-Fund as assets thereof. Notwithstanding the above provisions, Unitholders who have already redeemed their Units in the Sub-Fund before the return of any overprovision to the account of the Sub-Fund will not be entitled or have any right to claim any part of such overprovision.

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

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



## **SCHEDULE 1**

### **INVESTMENT RESTRICTIONS, SECURITIES FINANCING TRANSACTIONS AND BORROWING**

#### **Investment Restrictions**

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

Unless otherwise approved by the SFC and subject always to any provisions expressly to the contrary in this Prospectus, the following principal investment restrictions apply to the Sub-Fund:

- (a) the aggregate value of the Sub-Fund's investments in, or exposure to, any single entity (other than Government and other Public Securities) through the following may not exceed 10% of the latest available 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 latest available 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 latest available 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 would 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 purposes of this paragraph, “cash deposits” generally refers to those that are repayable on demand or have the right to be withdrawn by the Sub-Fund and not referable to provision of property or services.

- (d) ordinary shares issued by a single entity held for the account of a Sub-Fund, when aggregated with other holdings of ordinary shares issued by a single entity held for the account of all other Sub-Funds under the Sub-Fund collectively, may not exceed 10% of the nominal amount of the ordinary shares issued by the same entity;
- (e) not more than 15% of the latest available 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 Market;
- (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 Chapter 5.10(b) of 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 latest available Net Asset Value of the Sub-Fund may be invested in Government and other Public Securities of the same issue, except that this limit may be exceeded with the approval of the SFC provided that the Sub-Fund has been authorised by the SFC as an index fund;
- (h) subject to (g), the Sub-Fund may fully invest in Government and other Public Securities in at least six different issues. Government and other Public Securities will be regarded as being of a different issue if, even though they are issued by the same person, they are issued on different terms whether as to repayment dates, interest rates, the identity of the guarantor, or otherwise. Subject to the approval of the SFC and provided that the Sub-Fund has been authorised by the SFC as an index fund, the Sub-Fund may exceed the 30% limit in (g) above and may invest all of its assets in Government and other Public Securities in any number of different issues despite the restrictions under this paragraph;
- (i) unless otherwise approved by the SFC on a case-by-case basis taking into account the liquidity of the physical commodities concerned and availability of sufficient and appropriate additional safeguards where necessary, the Sub-Fund may not invest in physical commodities;
- (j) unless otherwise provided under the Code, the spread requirements under paragraphs (a), (b), (d) and (e) do not apply to investments in other collective investment schemes by the Sub-Fund and 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:
    - 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

- the investment objective, policy, underlying investments and product features of which are substantially in line with or comparable with those set out under Chapter 8.10 of the Code,

may either be considered and treated as (i) listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above; or (ii) collective investment schemes for the purposes of and subject to the requirements in paragraph (k)(1), (k)(2), provisos of (i) to (iii) of paragraph (k) below. However, the investments in exchange traded funds shall be subject to paragraph (e) above and, unless otherwise specified in this Prospectus, investment by the Sub-Fund in exchange traded funds is considered and treated as listed securities for the purposes of and subject to the requirements in paragraphs (a), (b) and (d) above;

(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 latest available Net Asset Value of the Sub-Fund; and
- (2) the Sub-Fund may invest in one or more underlying schemes which are either 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 latest available 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 this Prospectus,

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 latest available 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);
  - (iv) 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
  - (v) 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 management company of a underlying scheme, or quantifiable monetary benefits in connection with investments in any underlying scheme;
- (l) in the case of investments in shares in real estate companies and interests in real estate

investment trusts (REITs), the Sub-Fund shall comply with the requirements under paragraphs (a), (b), (d), (e) and (k)(1) above where applicable. Where investments are made in listed REITs, the requirements under paragraphs (a), (b) and (d) above apply and where investments are made in unlisted REITs, which are either companies or collective investment schemes, then the requirements under paragraphs (e) and (k)(1) above apply respectively; and

- (m) a Sub-Fund may invest 90% or more of its 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 Appendix of the relevant Sub-Fund 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, management company’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 may result, if the master fund in which the Sub-Fund invests is managed by the Manager or by any of its Connected Persons; 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 paragraphs (k)(1), (k)(2), provisos of (i) to (iii) of paragraph (k); and
- (n) 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 latest available 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 Sub-Fund shall not:

- (A) invest in a security of any class in any company or body if any director or officer of the Manager individually owns more than 0.5% of the total nominal amount of all the issued securities of that class or collectively the directors and officers of the Manager 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 REITs);
- (C) make short sales if as a result the Sub-Fund would be required to deliver securities exceeding 10% of the latest available Net Asset Value of the Sub-Fund (and for this purpose (i) securities sold short must be actively traded on a market where short selling is permitted; and (ii) short selling is carried out in accordance with all applicable laws and regulations);
- (D) carry out any naked or uncovered short sale of securities;
- (E) lend or make a loan out of the assets of the Sub-Fund, except to the extent that, in either case, the acquisition of bonds or the making of a deposit (within the applicable investment

restrictions) might constitute a loan;

- (F) subject to Chapter 7.3 of the Code, assume, guarantee, endorse or otherwise become directly or contingently liable for or in connection with any obligation or indebtedness of any person, save and except for reverse repurchase transactions in compliance with the Code;
- (G) 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. For the avoidance of doubt, the liability of Unitholders must be limited to their investments in the Sub-Fund; or
- (H) 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.

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 latest available net asset value. However, where the Sub-Fund is authorised under Chapter 8.6 of the Code as an index fund (with reference to the investment objective of the Sub-Fund and nature of the index) and notwithstanding Chapter 7.1 of the Code, more than 10% of the latest available Net Asset Value of the Sub-Fund may be invested in constituent securities issued by a single entity provided that (i) it is limited to any constituent securities that each accounts for more than 10% of the weighting of the index; and (ii) the Sub-Fund's holding of any such constituent securities may not exceed their respective weightings in the index, except where 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 Chapter 8.6(h)(i) and (ii) of the Code (as described above) do not apply if:

- (1) the Sub-Fund adopts a representative sampling strategy which does not involve the full replication of the constituent securities of the underlying index in the exact weightings of such index;
- (2) the strategy is clearly disclosed in this 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 Chapter 8.6(h)(a)(iv) of the Code must be disclosed in this 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 Chapter 8.6(h)(a)(iv) of the Code 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.

For the avoidance of doubt, the Manager current adopts a full replication strategy for the Sub-Fund and the Manager will not adopt representative sampling as an investment strategy. 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 adopt investment strategy other than full replication strategy.

In addition, due to its index tracking nature, the SFC may, upon sufficient justification, consider not requiring index fund to strictly comply with the investment restrictions in Chapters 7.1A and 7.1B of the Code on a case-by-case basis.

### **Securities Financing Transactions**

The Sub-Fund will not engage in any securities lending transactions, sale and repurchase transactions, reverse repurchase transactions or other similar over-the-counter transactions. Any change in this regard is subject to the prior approval of the SFC (if required) and not less than one month's prior notice to Unitholders.

### **Borrowing Policy**

Borrowing against the assets of the Sub-Fund is allowed up to a maximum of 10% of its latest available Net Asset Value. In determining for the purpose of these borrowing limits, back-to-back loans do not count as borrowing. 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 investments for the account of the Sub-Fund; or
- (c) for any other proper purpose as may be agreed by the Manager and the Trustee from time to time, except to enhance the performance of any Sub-Fund.

## SCHEDULE 2

### INDEX AND DISCLAIMER

#### 1. Index Methodology

The Index is an investable index usually comprising 50 PRC companies listed on the Shanghai Stock Exchange (the “SSE”) and the Shenzhen Stock Exchange (the “SZSE”), selected by FTSE and VPISL according to the Index ground rules which are summarised below.

You can obtain the complete and most updated ground rules from the website of FTSE at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC).

#### 2. Roles of FTSE and VPISL

FTSE is responsible for the operation, calculation and maintenance of the Index as well as the publication and record keeping of all changes to constituents. VPISL is responsible for undertaking the index screening review of the Index and will also provide FTSE with a list of new constituents at the semi-annual review.

Regarding the performance of the 3 screenings (as further explained in 3.1 below), the liquidity and free float screenings are performed by FTSE whereas the size screening is performed by VPISL based on data supplied by FTSE.

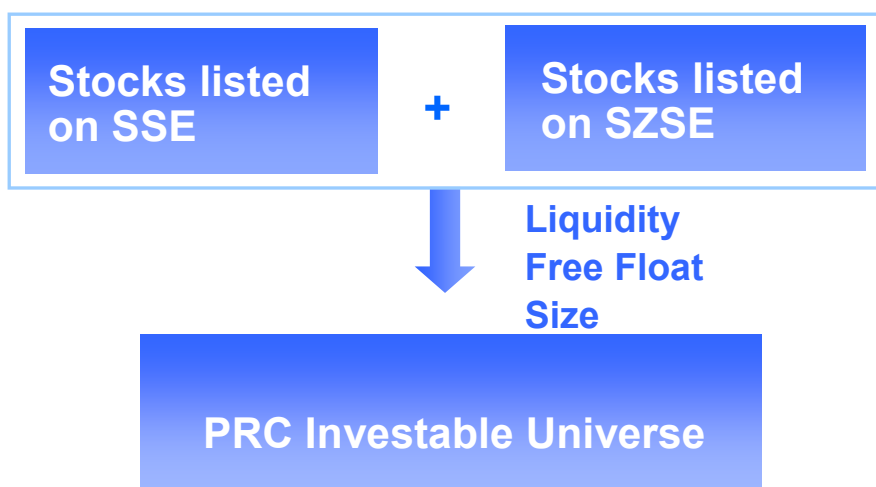
#### 3. Universe Selection Criteria

Stocks listed on the SSE and the SZSE will be eligible for Index inclusion and are referred to in this Prospectus as the PRC Universe.

##### 3.1 PRC Investable Universe

Each company in the PRC Universe will be subject to 3 investability screens stated below so as to qualify as candidates in the PRC Investable Universe. These are liquidity, free float and size.

#### PRC Universe



### 3.1.1 Liquidity

Each security in the PRC Universe will be tested for liquidity by calculation of its median daily trading per month. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking, therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.

A non-constituent which does not turnover at least 0.05% of the company's total shares in issue (after the application of any free float adjustment as explained in Rule 3.1.2) based on their median daily trade per month for at least 10 out of the 12 months prior to a periodic review will not be eligible for inclusion in the Index.

An existing constituent which does not turnover at least 0.04% of the company's total A-Shares in issue (after the application of any free float adjustment as explained in Rule 3.1.2) based on their median daily trade per month for at least 8 of the 12 months prior to a periodic review will be removed from the Index.

New issues which do not have a twelve month trading record must have a minimum 3 month trading record when reviewed. They must turnover at least 0.05% of their shares in issue (after the application of any free float weightings) based on their median daily trade per month in each month since their listing to be eligible for inclusion in the Index.

The liquidity of each Index constituent is screened at the FTSE Global All Cap Index regional review for Asia Pacific ex Japan in March of each year.

### 3.1.2 Free Float

The stocks in the PRC Universe are adjusted for free float, cross-holdings and foreign ownership limits. The free float banding rules will follow FTSE Global Equity Index Series methodology, which provides, amongst other things, that:

- A security that has a free float of less than or equal to 5% will be ineligible for the Index.
- A security that has a free float greater than 5% but less than or equal to 15% will be eligible for the Index provided that the security's full market capitalisation (before the application of any investability weight) is greater than USD5 billion.
- If the security's nationality (which is determined by the FTSE Nationality Committee) is within an emerging country, the threshold level is reduced to USD2.5 billion.

Free float restrictions will be calculated using available published information. The free float adjusted market capitalisation is calculated by multiplying the market price, total shares in issue, and investability weighting. In this regard, the initial weighting of a constituent in the Index will be applied in the following bands:

<b><u>Free Float</u></b>	<b><u>Investability weighting used to calculate the adjusted market capitalisation</u></b>
Free float less than or equal to 5%	Security not eligible for inclusion in the Index
Free float greater than 5% but less than or equal to 15%, provided that the security's full market capitalisation (before the application of any investability weight) is greater than USD2.5	Actual free float rounded up to the next highest whole percentage number



billion for emerging country and USD5 billion for non-emerging country	
Free float greater than 15% but less than or equal to 20%	20%
Free float greater than 20% but less than or equal to 30%	30%
Free float greater than 30% but less than or equal to 40%	40%
Free float greater than 40% but less than or equal to 50%	50%
Free float greater than 50% but less than or equal to 75%	75%
Free float greater than 75%	100%

Free float restrictions include:

- A-Shares directly owned by state, regional, municipal and local governments (excluding shares held by independently managed pension schemes for governments)
- A-Shares held by sovereign wealth funds where each holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%
- A-Shares held by directors, senior executives and managers of the company, and by their family and direct relations, and by companies that they control
- A-Shares held within employee share plans
- A-Shares held by public companies or by non-listed subsidiaries of public companies
- A-Shares held by founders, promoters, former directors, founding venture capital and private equity firms, private companies and individuals (including employees) where the holding is 10% or greater. If the holding subsequently decreases below 10%, the shares will remain restricted until the holding falls below 7%
- All A-Shares where the holder is subject to a lock-in clause (for the duration of that clause)
- A-Shares held for publicly announced strategic reasons, including shares held by several holders acting in concert

The following are not considered as restricted free float:

- Portfolio holdings (such as pension and insurance funds)
- Nominee holdings unless they represent restricted free float as defined above
- Holdings by investment companies
- ETFs

If in addition to the above restricted holdings, the company's shareholders are subject to legal restrictions, including foreign ownership restrictions, that are more restrictive, the legal restriction will be applied.

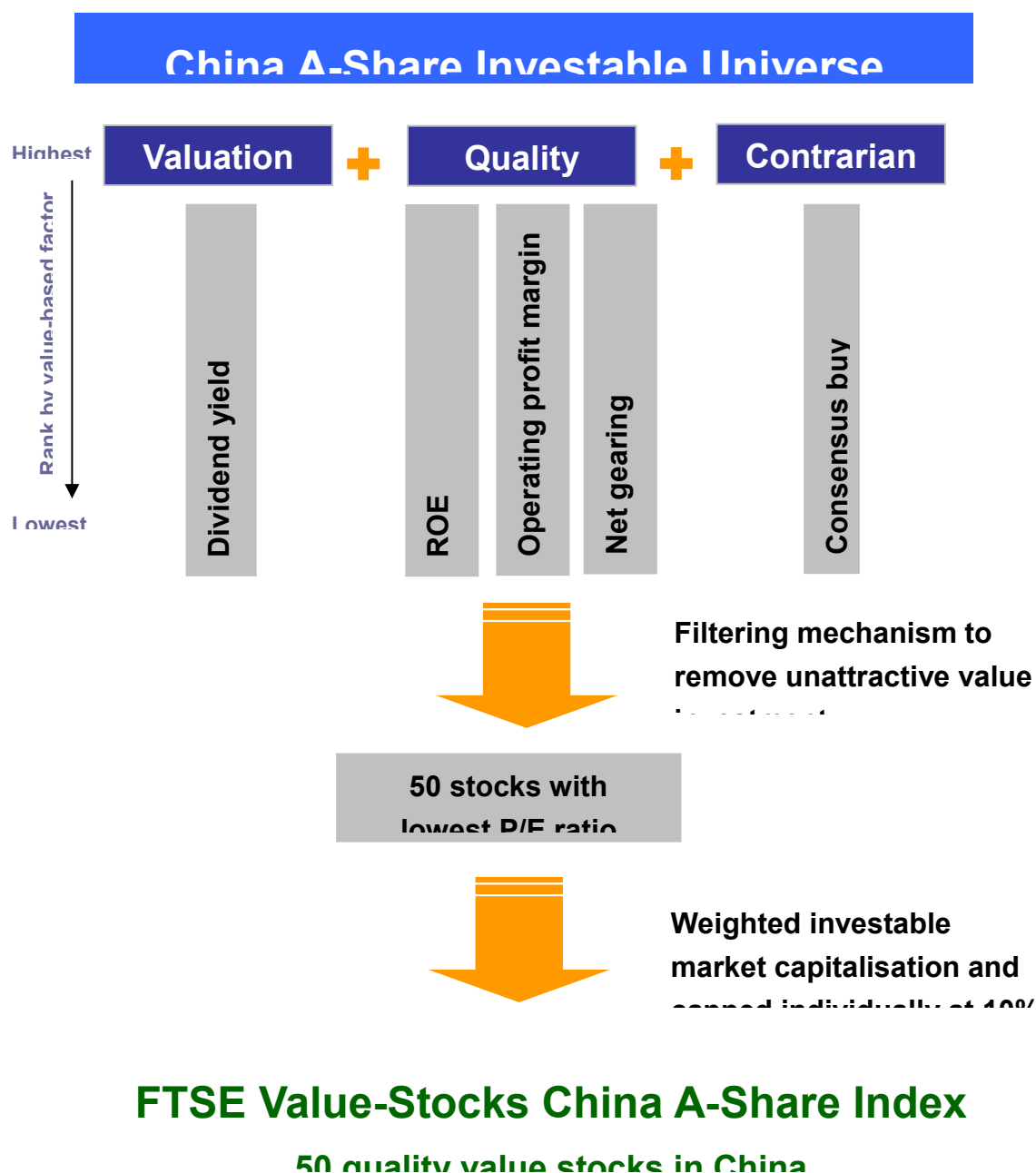
### 3.1.3 Size Requirement

The investable market capitalisation (i.e. after free float adjusted market capitalisation which is calculated by multiplying the market price, total shares in issue, and investability weighting) of a company must be at least 0.1% of the total investable market capitalisation of all the companies which can pass through the Liquidity and Free Float requirements of the FTSE Global Equity Index

Series.

#### 4. Index Screening

VPISL will screen each security in the PRC Investable Universe and each will be ranked by three sets of value-investing screening criteria, namely Contrarian, Quality and Valuation screenings.



##### 4.1 Contrarian Screening

Contrarian screening aims to avoid following the herd. Companies in the PRC Investable Universe

covered by more than 10 analysts in the forecast recommendation with a buy recommendation from over 80% of analysts will be screened out. These recommendations are currently based on the I/B/E/S consensus data which is collected by Thomson Reuters. I/B/E/S has a policy on the prevention of stale data which involves checking with contributing analysts when they have not changed their forecast for 105 days to ensure currency of their forecasts.

The screening criteria will change if the index constituent selection criteria in Rule 4.4(ii) is not met. For further details, please refer to Rule 4.4(ii).

## 4.2 Quality Screening

Quality screening is applied to avoid value traps, based on the following three fundamental factors:

(a) 3-year Average Return on Equity =  $(ROE_{-1} + ROE_{-2} + ROE_{-3}) / 3$

where  $ROE_{-1}$ ,  $ROE_{-2}$  and  $ROE_{-3}$  refer to the return on equity for the previous three fiscal years, respectively.  $ROE = (\text{Net Income before Preferred Dividends} - \text{Preferred Dividend Requirement}) / \text{Average of Last Year's and Current Year's Common Equity} * 100$

(b) Operating Profit Margin =  $\text{Operating Income} / \text{Net Sales or Revenues} * 100$

(c) Net Gearing =  $(\text{Total Debt} - \text{Cash}) / (\text{Asset} - \text{Liability})$

Companies in the PRC Investable Universe will be ranked by each of the factors. The worst 15% among the companies in each factor in terms of ordinal ranking will then be screened out.

## 4.3 Valuation Screening

Valuation screening helps to identify relatively under-valued constituents in the PRC Investable Universe.

(a) Dividend Yield

All companies in the PRC Investable Universe will be ranked by trailing twelve month dividend yield in descending order. Those companies in the bottom 25% in terms of ordinal ranking will then be screened out.

(b) Forecast Price-to-Earnings

All the remaining companies (after all the above screenings) will then be sorted by consensus forecast forward one year price-to-earnings ratio<sup>9</sup> ("PE ratio") in ascending order. Those companies with negative forward PE ratios will be screened out. If forward one fiscal year end date is less than three months after the review date, then forward two year price-to-earnings ratio will be used in calculation instead.

## 4.4 Index Constituent Selection

- (i) From the PRC Investable Universe, the companies passing through all the screenings above are ranked by PE ratio and the 50 companies with the lowest PE ratio are selected to be the constituents of the Index.
- (ii) If the number of companies passing through all the screenings specified in Rules 4.1 to 4.3 is less than 50 stocks, the following rules will apply:

---

<sup>9</sup> The consensus forecast forward one year price-to-earnings ratio refers to the stock price as of the review date divided by the mean forecast earnings per share ("EPS") for the next fiscal year of a company. The mean forecast EPS is a consensus data collected by financial data vendors.

- (a) If the number of companies is greater than 40 and less than 50, the Index will comprise less than 50 stocks until the next review.
- (b) If the number of companies is less than or equal to 40, the contrarian screening criteria in Rule 4.1 will change such that companies in the PRC Investable Universe covered by more than 10 analysts in the forecast recommendation with a buy recommendation from over 90% of analysts will be screened out. The screening process in Rules 4.2 to 4.3 will continue to apply. Thereafter, if the number of companies passing through the screenings in Rules 4.1 to 4.3 remain less than or equal to 40, companies in the PRC Investable Universe covered by more than 10 analysts in the forecast recommendation with a buy recommendation from all analysts will be screened out.

## **5.1 Semi-annual Review**

Reviews will be conducted on a semi-annual basis in May and September, using data as at the last working day in April and August. For each review, the process of index construction is carried out as stated in Rules 3 and 4 above.

Any constituent changes will be implemented after the close of business on the third Friday (i.e. effective Monday) of May and September. Constituent changes in periodic review will be published before the actual implementation through appropriate media.

## **5.2 Weighting Method**

The 50 constituents in the Index are weighted by investable market capitalisation.

## **5.3 Capping**

At the semi-annual review any constituents whose weights are greater than 10% are capped at 10% using prices adjusted for corporate actions as at the close of business on the second Friday in May and September. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%. The capping is implemented after the close of business on the third Friday in May and September based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.

## **5.4 Periodic Capping Review**

In addition to the semi-annual reviews in May and September, there are capping reviews in March, June and December which will be in accordance with the review of free float and shares in issue undertaken by FTSE Global All Cap Index. If any constituent has resulted in a weighting above 15% of the Index (based on the close of business on the second Friday of March, June and December, taking into account the review undertaken by the FTSE Global All Cap Index), a full capping review of the Index will be implemented effective after the close of business on the third Friday of that month.

## **5.5 Intra Review Capping**

When a new constituent has been added to the Index as the result of a corporate event, and the weight of this new addition is greater than 10% of the Index, the Index will be capped intra review. Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

## **5.6 Amendments to the Index Methodology**

Any changes and exceptions to this methodology may only be made by FTSE and VPISL. Any

material changes will be announced through appropriate media before implementation following necessary SFC approval (if required).

## 6. Index Algorithm and Calculation Method

The Index is calculated using the algorithm described below.

$$\frac{\sum_n (P_i * FX_i * S_i * F_i * C_i)}{D}$$

n	=	Number	The number of securities in the Index.
P	=	Price	The latest trade price of the constituent security i (or the price at the close of the Index on the previous day).
FX	=	Exchange Rate	The exchange rate required to convert the home pricing currency of the constituent security i into the Index's base currency i.e. RMB.
S	=	A-Shares in Issue	The number of shares in issue used by FTSE for security i, as defined in the Ground Rules.
F	=	Free Float Factor	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. The free float factor for each security is published by FTSE.
C	=	Capping Factor	The factor applied to each security to allow its weight within the index to be capped, expressed as a number between 0 and 1 where 1 represents 100%, i.e. no cap. The Capping Factor is calculated by FTSE.
D	=	Divisor	A figure that represents the total issued share capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the Index.
i	=	Index constituent	Any constituent security in the Index.

## 7. Index constituents and additional information

You can obtain the most updated list of the constituents of the Index, the respective weighting of the constituents and other additional information of the Index from the website of FTSE at <https://www.ftserussell.com/products/indices/value-stocks> (this website has not been reviewed by the SFC). The Index is available on Bloomberg (GPVP9TR) and Thomson Reuters (.FTGPVP009) in real time.

## 8. Index Provider Disclaimer

The Units are not in any way sponsored, endorsed, sold or promoted by FTSE, the London Stock Exchange Plc (the "Exchange"), The Financial Times Limited ("FT") or VPISL and neither FTSE nor the Exchange nor the FT nor VPISL make any warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the Index and/or the figure at which the Index stands at any particular time on any particular day or otherwise. The Index is

compiled and calculated by FTSE and designed by VPISL. However, neither FTSE nor Exchange nor FT nor VPISL shall be liable (whether in negligence or otherwise) to any person for any error in the Index and neither FTSE nor the Exchange nor the FT nor VPISL shall be under any obligation to advise any person of any error therein.

“FTSE®”, “FT-SE®” and “Footsie®” are trade marks of the Exchange and the FT and are used by FTSE under licence.